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Derwent London plc
Report & Accounts 2011

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Who we are

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

Principal objective

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

Business model

Our aim is to acquire and own a portfolio of central London properties that has reversionary rents and significant opportunities to enhance and extract value through refurbishment, regeneration and redevelopment.

We will deliver this 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 optimise income whilst freeing up space for development; and
- retaining financial strength and flexibility through uncomplicated financing and a sustainable level of gearing. Our REIT status also allows us to operate in a tax-efficient manner.

Buckley Building
49 Clerkenwell Green
EC1

We took vacant 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 the rental income of £2.45m pa has been maintained until March 2015.

the date of the original lease expiry
The property is being refurbished and extended and will be delivered to the market in late 2012

Type Offices
Size 85,000 sq ft (7,900m²)
Completion date 2012
Architect Buckley Gray Yeoman

At a glance

Our portfolio comprises 5.4 million sq ft (501,400m^2) of properties valued at £2.6 billion.

96% of our properties are located in central London, grouped in 17 "villages", each with its own culture and identity. 77% can be found in the West End and 19% in the City borders. The balance relates to properties held in Scotland on the northern outskirts of Glasgow.

Percentages weighted by valuation

Scotland 4%
Ladbroke Grove 1%

122
buildings

600+
tenants

£113.1m
annualised net contracted rental income

At a glance

Lettings - continued success

→ see page 32

100
lettings

2010 100
2009 101

£16.7m pa
income from new lettings

2010 £8 0m pa
2009 £9 3m pa

495,700 sq ft
46,050m²
space let

2010 347,000 sq ft (32,200m²)
2009 339,000 sq ft (31,500m²)

Angel Building

100%
let by November

Angel Building lettings

Expedia com at **£3 8m pa**
NG Bailey at **£0 7m pa**
Sage Pay at **£0 5m pa**
Jamie's Italian at **£0 3m pa**

Other lettings

Lastminute com at the Johnson Building at **£0 95m pa**
Pre-let to City University at 88 Rosebery Avenue at **£1 2m pa**

EPRA vacancy rate reduced to **1 3%** at year end

Planning success

→ see page 40

889,000 sq ft
82,500m²
applications approved in 2011

80 Charlotte Street
City Road Estate
Turnmill
Buckley Building
4 & 10 Pentonville Road
Central Cross (Phase 1)

443,500 sq ft
41,200m²
applications awaiting approval at year end

Continued investment in our portfolio in 2011

→ see page 37

£87.5m
acquisitions

Network Building headlease
1 Page Street
Morelands Buildings headlease

£41.0m
capital expenditure

219,400 sq ft
20,380m²
projects completed

338,000 sq ft
31,400m²
projects on site at year end

Other milestones

Joint venture signed with Grosvenor for the redevelopment of **1-5 Grosvenor Place** → **see page 34**

Contract signed for the disposal of **Riverwalk House** and **232-242 Vauxhall Bridge Road** for **£77m** subject to successful planning application → **see page 36**

Pre-let agreed at **1 Page Street** with Burberry for **127,000 sq ft (11,800m²)** for **£5.3m pa** → **see page 34**

Recycling of capital

→ **see page 36**

March Covent Garden Estate
July Victory House

£132.5m
of disposals for

£36.1m
profit

38%
average uplift over December 2010 book value

Refinancing

→ **see page 51**

June
2 75% convertible bond issue of

£175m

£100m
revolving bank facility extended to April 2015

December
two bank facilities signed totalling

£300m

£25m
increase to revolving bank facility expiring in November 2015

Total of

£600m
of loans refinanced in 2011

Financial highlights

EPRA NAV per share[1]

2011
1,701p

2010
1,474p

EPRA NNNAV per share[1]

2011
1,607p

2010
1,425p

Net property income

2011
£117.7m

2010
£113.0m

EPRA profit before tax

2011
£52.3m

2010
£55.2m

EPRA earnings per share

2011
51.59p

2010
52.89p

Dividend per share

2011
31.35p

2010
29.00p

Gearing and debt

Interest cover ratio

2011

307%

2010
328%

Balance sheet gearing

2011

50.4%

2010
59.4%

Loan to value

2011

32.0%

2010
35.7%

See pages 51 to 55 of the finance review for details of the refinancing completed in January 2012

Return measures

EPRA property measures

EPRA net initial yield

2011

4.4%

2010
4.7%

EPRA "topped-up" net initial yield

2011

5.2%

2010
5.3%

EPRA vacancy rate

2011

1.3%

2010
5.9%

Chairman's statement

Derwent London has proven again that the strategy of focusing on mid-market central London is successful EPRA net asset value per share increased by 15 4% to 1,701p and the portfolio generated a revaluation surplus of £172 1m We have increased and extended our debt facilities to provide us with the firepower and flexibility to exploit the opportunities open to us

Robert Rayne
Non-executive Chairman

Overview

Derwent London recorded another strong performance in 2011, seeing good progress across a range of projects, whilst maximising flexibility and mitigating key risks Our business model has again proved robust in turbulent markets, with the core central London office market holding up well We have seen lower than average supply and continued strong demand both from tenants and a wide variety of domestic and overseas investors EPRA net asset value per share increased by 15 4% to 1,701p from 1,474p at 31 December 2010 and the portfolio generated a revaluation surplus of £172 1m (2010 £301 7m)

In a period in which asset management has become ever more important 2011 was a record year for lettings at the Group This activity produced total rental income of £16 7m pa on floorspace of 495,700 sq ft (46 050m²) This surpassed our 2010 performance when the lettings totalled £8 0m pa These transactions reduced the Group's space immediately available for occupation to 1 3% by estimated rental value, down from 5 9% at the start of the year There are a number of projects currently on site which, when completed, will increase this percentage However, taking account of pre-lets, including Burberry's expansion into 1 Page Street SW1, and the continuing receipt of rental income from the Buckley Building (previously Woodbridge House) EC1, these schemes have been considerably derisked

The year was also an important one for the Group in securing planning permissions at a number of properties which add to our store of future opportunities In 2011 we received planning permission to create a total of 0 9m sq ft (82,500m²), an uplift on the existing floorspace at these properties of 68% Amongst these consents, in our core Fitzrovia Estate, 80 Charlotte Street W1 will provide 367,000 sq ft (34,100m²) of development, a further step in the wider regeneration of the area The City Road Estate EC1 scheme also received planning permission during the year This 289,000 sq ft (26,800m²) office-led development is located at Old Street roundabout, in the centre of the area promoted by the Government as "Tech City" It will be developed using our "White Collar Factory" principles though we would require a pre-let of a substantial portion before proceeding with this scheme

The development of Crossrail will have a significant beneficial impact on central London, and we intend to take full advantage of this with projects planned around both the Tottenham Court Road and Farringdon interchanges Towards the end of 2011, in collaboration with Crossrail, we submitted a planning application for major regeneration at 1 Oxford Street W1 The 275,000 sq ft (25,500m²) proposed scheme would be built above the Tottenham Court Road Crossrail and London Underground station We have the option to repurchase this site upon completion of the Crossrail works, around 2017 It is hoped to receive a planning decision shortly

During the year we also made material progress on our proposed schemes in the Farringdon area, with Tummill at 63 Clerkenwell Road EC1 and the Buckley Building on Clerkenwell Green EC1 both receiving planning consent Tummill is a 70 000 sq ft (6,500m²) new build office development which will occupy a major corner site close to the Farringdon Crossrail interchange The development is expected to start later in 2012 At the nearby Buckley Building we are now on site, enlarging the existing property to 85,000 sq ft (7,900m²) with works due to complete later this year

"The Group's performance would not be possible without a highly committed and experienced team It was gratifying that this was recognised when Derwent London was ranked fifth overall among UK companies in Management Today's "Britain's Most Admired Companies" Award"

In October 2011, we signed a Memorandum of Understanding with Grosvenor, our freeholder at 1-5 Grosvenor Place SW1, to consider redevelopment of the site We are now pleased to confirm that we have progressed this relationship into a formal joint venture The Group has restructured its headleases into a new 150 year term and sold 50% of this interest to Grosvenor for £60m The existing buildings occupy an underutilised flagship site of 1 5 acres (0 6 hectares), at Hyde Park Corner The transaction offers a unique opportunity to undertake a substantial mixed-use redevelopment in such a prominent location Whilst we progress redevelopment plans we are maintaining income through short-term, flexible lettings

At 40 Chancery Lane WC2 we have undertaken similar active asset management In early 2012 we exchanged conditional contracts with our freeholder to restructure and extend our interests here into a new 128-year lease This has unlocked a redevelopment opportunity which is due to start in the second half of 2012 It will provide a new 100,000 sq ft (9,300m²) six-storey office building which we expect to complete by the end of 2014

Towards the end of 2011 we submitted a planning application for the redevelopment of Riverwalk House on Millbank SW1 In contrast to the commercial developments above, this application is for a 148 000 sq ft (13,700m²) high-specification residential redevelopment We have exchanged contracts to sell this and another nearby property for £77 3m to Ronson Capital Partners, with completion conditional on receipt of planning permission This transaction will provide the Group with valuable experience of a major residential scheme and a continued interest by way of a profit overage

Following the Government's recent decision to proceed with the HS2 rail link, the Board has given careful consideration to our proposed 265,000 sq ft (24 600m²) office and residential development at Hampstead Road NW1 The property is now expected to be compulsorily purchased as part of the construction of HS2 Despite having reached advanced negotiations on major pre-lets on this project, in view of the uncertainty as to the future of the site and the considerable investment needed to complete the project, we have decided to defer redevelopment "Light touch" refurbishment options are now being considered that will enable us to let the space on flexible terms and we will keep the situation under review as the Government's plans progress

The process of recycling the portfolio continues disposing of properties where this appears an attractive option In 2011 we sold £132 5m of mature and smaller assets, giving rise to a surplus on disposal of £36 1m Where opportunities arose we also made acquisitions, totalling £87 5m, either near existing holdings such as 1 Page Street SW1, or where we could buy or lengthen headleases such as at the Network Building W1 and Morelands Buildings EC1 These purchases give us greater control over the future of these properties

Despite a difficult period for UK and European banks when their cost of funds has been under renewed pressure and access to capital has been constrained, our covenant remains in demand and we continue to receive very good support from the banking sector Including the issue of a £175m unsecured convertible bond in June 2011, we signed up a total of £600m of new or extended facilities in 2011 As well as deferring any bank refinancing risk until 2014 we have diversified our sources of finance and anticipate that an increasing proportion of our future debt requirements is likely to come from non bank sources

The Group's performance would not be possible without a highly committed and experienced team It was gratifying that this was recognised when Derwent London was ranked fifth overall among UK companies in Management Today's "Britain's Most Admired Companies Award, and first in the property sector for the second consecutive year In addition, the Angel Building was shortlisted for the prestigious RIBA Stirling Prize as well as being awarded a number of other accolades, endorsing the strength of our design philosophy Further recognition of the quality of our business came when we were recently awarded the Estates Gazette 'Property Company of the Year – Offices"

Results

The portfolio performed well through the whole of 2011, increasing in underlying value by 7 6% to £2 6bn and driving the Group s EPRA net asset value to 1,701p per share compared with 1,474p a year earlier and 1,621p at June 2011 This 15 4% increase over the year was led by the £172 1m revaluation movement, which came mainly from rental growth, while the £301 7m surplus in 2010 also benefited from yield compression

With strong lettings and new income from properties acquired gross property income increased to £125 5m from £119 4m in 2010 but EPRA earnings per share fell slightly from 52 89p to 51 59p, due mainly to higher finance and administration costs Profits on disposals of investment properties, which are not included in the EPRA earnings, totalled £36 1m in 2011 against £0 9m in 2010

Chairman's statement

The Board continues to pursue a progressive dividend policy and is proposing an increase in the final dividend of 8 1% to 21 90p per share to be paid on 15 June 2012 to shareholders on the register at 18 May 2012 Of this amount, 18 10p will be paid as a PID under the UK REIT regime and there will be a scrip alternative The total dividend for the year is therefore 31 35p, an increase of 8 1% on that in 2010 and a level which remains well covered by recurring earnings

Property disposals during 2011 almost matched the combined investment in new acquisitions and capital expenditure and, with the valuation increase noted above, this has contributed to another fall in gearing The Group's loan to value ratio at 31 December 2011 was 32 0% against 35 7% in December 2010 and undrawn and available bank facilities totalled £469m at December 2011, a substantial increase over the equivalent figure at December 2010 of £245m In addition, there was £589m of uncharged property at December 2011 compared with £484m at the previous year end

The Board

As previously announced, Donald Newell stepped down from his position as non-executive Director at the conclusion of the Annual General Meeting in May 2011 Don joined the Company when it merged with London Merchant Securities, where he had been on the Board since 1998 Again I would like to thank him for his valuable contribution and sound counsel throughout this period

Outlook

Whilst we believe that low GDP growth and a paucity of finance will continue to act as headwinds to the UK economy, including to the real estate market, we consider Derwent London to be strongly placed The London economy continues to show resilience and our focus on mid-market rentals accords with the somewhat straitened times in which we currently live We have, and continue to attract, a diverse tenant mix with an emphasis on companies from the Technology, Media and Telecoms sectors

Despite the difficult state of the economy, we are encouraged by the continuing strength of our letting activity We are on site or due to commence major capital projects covering over 500,000 sq ft (46,500m²) in 2012 which will involve total capital expenditure of about £137m We have either pre-let commitments or continuing rental income over almost 50% of these projects

In the near term, the London economy should receive a boost in 2012 with the Queen's Diamond Jubilee celebrations, the Olympics and the Paralympics and, in the medium term, our central London "villages" will greatly benefit from the progress of Crossrail

We have a vibrant portfolio that is attractive to tenants, a strong pipeline of development opportunities and a very sound financial base As a result we have capacity for further substantial investment in both new acquisitions and development expenditure, and we continually assess opportunities, whilst retaining flexibility over the timing of such commitments We believe the Group is well positioned to deliver good returns both in the tough environment we currently face, and when more sustained economic growth appears

Robert A Rayne
1 March 2012

"We have a vibrant portfolio that is attractive to tenants, a strong pipeline of development opportunities and a very sound financial base As a result we have capacity for further substantial investment in both new acquisitions and development expenditure, and we continually assess opportunities"

Our portfolio

We provide high quality, innovative contemporary office space, priced at mid-market rents With over half of the portfolio still to be worked, we have a wealth of value-creating opportunities that can be crystallised through asset management or regeneration With some major planning approvals in 2011, we have added to these opportunities

We own and manage a 5 4 million sq ft (501,400m²) portfolio that was valued at £2 6bn as at 31 December 2011 Of our portfolio, 77% is in the West End, the main focus of our operations in villages such as Fitzrovia, Victoria, Belgravia and Marylebone The City borders account for 19% and include villages such as Old Street Clerkenwell Holborn and Shoreditch, and the remaining 4% is in Scotland on the northern outskirts of Glasgow

The portfolio consists of 122 buildings and has over 600 tenants covering a range of business sectors Media, TV marketing and advertising tenants account for 29% of our net rental income whilst professional and business services tenants comprise 28% and 13% of our income is from retail sales outlets

Our portfolio's annualised net contracted rental income at the year end was £113 1m, compared to an estimated rental value of £160 4m, therefore offering strong reversionary potential With passing rent of £25 79 per sq ft (£277 60 per m²) on our central London office portfolio, rising to £31 10 per sq ft (£334 80 per m²) once "topped up" for the expiry of rent-free periods and other rental incentives average rents remain low

Ten principal tenants % of rental income[1]	
Arup	5 7
Burberry	4 6
Saatchi & Saatchi	3 8
FremantleMedia Group	3 0
MWB Business Exchange	2 7
Thomson Reuters	2 6
Government	2 6
Pinsent Masons	2 2
BBC	2 1
House of Fraser	1 8

[1] Based upon contracted net rental income of £113 1m

Our market

London was one of the strongest performing UK regions in 2011, and continues to attract national and international occupiers and inward investment The central London office market saw take-up approximately 10% below the ten-year average but, with the lowest level of completed developments since the early 1990s, vacancy rates remained stable Investment volumes remained subdued with overseas investors responsible for over half the transactions in the West End

Overview

The UK economy grew by an estimated 0 9% in 2011, a weaker level than anticipated a year ago, with growth of 0 6% in the third quarter and contraction of 0 2% in the final quarter UK base rates stayed at their historic low of 0 5% during the year whilst unemployment continued to rise and RPI inflation stayed at 5% or above for every month of 2011 with the exception of December

Against this backdrop, and with the Government's austerity measures starting to impact the economy, the outlook for 2012 remains fragile In addition, the sovereign debt issues in many parts of the Eurozone add to the economic and political uncertainty further subduing business sentiment and putting additional pressure on the cost of borrowing The Bank of England is predicting that inflation will fall in 2012 and is hopeful that the further quantitative easing will help to stimulate the economy Most commentators expect interest rates to remain unchanged throughout 2012 whilst the International Monetary Fund in January 2012 predicted that UK GDP growth for the year will be constrained at around 0 6% before rising to 2% in 2013 With this background financial and business services employment in central London is expected to rise by 1 2% in 2012 before accelerating to 3 7% in 2013 according to Oxford Economics

London, where 96% of Derwent London's portfolio is located, is a major centre for international business and commerce and generates approximately 20% of UK economic output Its economy is predominantly service-based and was one of the strongest performing UK regions in the year Despite London's significant exposure to the financial services sector and to Europe the capital has remained resilient and continues to attract national and international occupiers and inward investment

The year ahead will be a memorable one for London as it hosts the Olympic and Paralympic Games in the summer and will play a major role in the celebrations surrounding the Queen's Diamond Jubilee These events are expected to boost sentiment and economic activity and further enhance London's international profile

The West End was the strongest performing central London sub-area with occupier take-up at 6% above the 10-year average

Central London office occupier market

Central London has an office stock of approximately 218 million sq ft (20 3 million m²), making the capital a significant office centre in both a European and global context By sub-area, 50% of London's office stock is in the City, 41% in the West End and 9% in Docklands Derwent London focuses on the West End and its surrounds and tailors its space to the more diverse occupier base here, which mainly comprises companies from the media and professional and business services sectors The City and Docklands are very much dominated by financial and legal occupiers

As published by surveyors CBRE, central London office take-up for 2011 was 10 3 million sq ft (0 96 million m²) This was lower than the 14 6 million sq ft (1 36 million m²) recorded in 2010 and approximately 10% below the 10 year average Relative to trend, and underlining the resilience of our chosen operating market the West End was the strongest performing sub-area with annual take-up of 4 4 million sq ft (409,000m²) This was 6% above the 10-year average and 8% below the 2010 level The Technology, Media and Telecommunications (TMT) sectors were particularly active in 2011 and accounted for 24% of West End take-up

With the lowest level of completed developments since the early 1990s at 1 7 million sq ft (158,000m²), the CBRE central London vacancy rate by floorspace remained stable over the year and below the 10-year average This rate started the year at 5 5%, declined to 4 9% at the half year and finished at 5 2% With few development completions, the West End's vacancy rate was even lower commencing the year at 5 2% falling to 3 8% at the half year before rising to 4 3% at the year end

With the differing levels of supply and demand across the central London office sub-areas, the CBRE prime rent index showed West End rents increasing by 4 8% in 2011 compared to a 0 6% rise in the City

Central London investment market

Central London investment volumes, according to CBRE, totalled £8 4bn in 2011, down 14% on 2010 and 17% below the 10-year average In the West End, annual transactions totalled £3 2bn with overseas investors accounting for 57% of the total Over the year, prime yields in the West End remained at 4 0%, unchanged since mid-2010 and 150 basis points lower than their maximum during the downturn in 2009 City prime yields compressed by 35 basis points over the year and finished at 5 0%

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

John Burns
Chief Executive Officer

Our business model creates long-term value for our shareholders, tenants and the communities in which we operate We achieve this by acquiring, developing and extracting value from a portfolio of central London properties 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

Our business model supports our strategy because we are

Investing in our portfolio
We actively seek opportunities to acquire central London commercial properties with income-generating characteristics and regeneration potential

Our portfolio contains a variety of types, sizes and locations of properties, primarily in the West End and the borders of the City, which provides well-designed space at mid-market rents which appeals to a wide range of tenants We typically seek properties with low capital values in areas we believe are or will be up-and-coming Our portfolio has retained reversionary characteristics and more than 50% has been identified as suitable for refurbishment or redevelopment We are always looking for interesting acquisition opportunities and regularly assess the needs of the business, adjusting requirements in the light of this

"We are confident that the Group is well positioned to deliver good returns both in the environment we currently face, and when more sustained economic growth appears"

Robert Rayne
Chairman

Creating exciting new spaces
We transform commercial properties through good design, creating attractive, contemporary spaces for our tenants, our prospective tenants and the local community 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

Managing our assets
We seek a balance, maximising income where possible whilst at the same time freeing up space for development We aim to generate sufficient ongoing income from the portfolio to exceed comfortably our administrative and financial costs From this base, the volume of properties in the development pipeline can be adjusted depending on market conditions, tenant demand and the balance of the rest of the portfolio

On a building-by-building basis, the asset management team seeks to minimise voids, capture the portfolio's reversion and work closely with tenants and other stakeholders to understand their needs provide the best space to meet their budgets, and accommodate any expansion, contraction or relocation requirements

Retaining financial strength and flexibility
We believe in flexible and uncomplicated financing We 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 At the same time we retain sufficient headroom so that we can take advantage of market opportunities We vary our sources of funding in accordance with the lending environment 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

Our REIT status also allows us to operate in a tax-efficient manner

Previous spread
Angel Building EC1

Business strategy

Investing in our portfolio
We plan to retain a portfolio 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

Our recent acquisitions continue our strategy of buying assets of strategic importance, usually close to existing holdings Our purchase of 1 Page Street SW1 was somewhat unusual for us in that it was an empty building, but we wished to increase our development exposure The building which has been pre-let to Burberry, is close to our Horseferry House holding, which is also occupied by Burberry

We have also purchased or regeared headleases at the Network Building W1 and Morelands Buildings EC1 to expand our redevelopment opportunities at these sites This strategy has continued into 2012 with the regearing of the headleases at 1-5 Grosvenor Place SW1 and our interests at 40 Chancery Lane WC2

Creating exciting new spaces
Good design has always been at the heart of our business We work harder than most with all our architects engineers and designers to get the details right, creating spaces with the light and volume that provide our tenants with attractive environments in which to work Many of our developments adapt existing structures saving embedded carbon and reducing the use of new materials and we also build in features to minimise future energy and water consumption

Our design-led ethos has been recognised with a number of awards in 2011 The Angel Building was shortlisted for the RIBA Stirling Prize following its RIBA London 2011 award and also won numerous accolades from organisations such as the British Council for Offices, the British Construction Industry, the Chartered Institution of Building Services Engineers, and New London Architecture The Maple & Fitzroy development in Fitzrovia W1 also won 2011 RIBA London and New London Architecture awards

In 2011 we set ourselves the goal of gaining a number of significant planning permissions We obtained six major planning consents several of which will be near Crossrail stations when open 80 Charlotte Street W1 and Central Cross W1 are both near the Tottenham Court Road interchange, and Tunnmill and Buckley Building EC1 are both near Farringdon station In addition our City Road Estate Scheme EC1, adjacent to Old Street roundabout, and 4 & 10 Pentonville Road N1, near our Angel Building, gained permission These developments are well placed to attract companies such as those in the TMT sector that have been particularly active in London of late, an area where we have had considerable success attracting and retaining tenants

As at the end of 2011 we had five major projects on site and are due to commence work on 40 Chancery Lane WC2 and Tunmill EC1 later in 2012, giving a total pipeline under development of over 500,000 sq ft (46 500m²) We also expect planning decisions on Riverwalk House SW1 1 Oxford Street W1, and 1 Page Street W1 as well as phase 3 of Central Cross

Managing our assets
Where appropriate, we work with landlords at our leasehold properties to regear headleases and thus improve the flexibility and financial viability of future developments

In 2011, we purchased and regeared headleases at the Network Building and Morelands Buildings At 40 Chancery Lane we have regeared our ownership with the leaseholders, the Colville Estate Previously we held 76% leasehold with 17 years unexpired, 10% freehold and 14% with no ownership, and now we have a 128-year headlease across the entire site, unlocking a 100,000 sq ft (9,300m²) development which is due to start on site later in 2012

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, as well as meeting tenants to discuss service charge budgets in advance We also use standardised "green leases" in plain English and clauses to encourage improved sustainability

Retaining financial strength and flexibility
We 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 We maintain excellent long-term relationships with our core lenders, a tactic that has served us well in the uncertain financing environment in which we currently operate

In 2011 we set ourselves the task of refinancing in good time the majority of the bank facilities expiring before the end of 2013, and diversifying our sources of debt finance It was apparent that bank facility pricing was under pressure and there was a wall of refinancing and deleveraging pressure facing lenders We subsequently successfully arranged £600m of new or extended facilities As part of this refinancing we also diversified our sources of finance with the issue of the £175m convertible bond and we anticipate that a proportion of our future debt requirements will continue to come from non-bank sources

Our policy of balancing refurbishment and development activity with income generation has greatly aided our cashflow management and we have continued to manage Group gearing by recycling capital, disposing of properties where we can realise an attractive price Disposing of Riverwalk House for residential development will realise proceeds markedly above the valuation as an office building

Property lifecycle

Our business model has been developed to combine flair, innovation and management focus to add value to our extensive portfolio of properties and maintain a stable long-term financial position Success is not the result of short-term reactions, rather it is the fruit of our long-term vision to create inspirational buildings

Acquire the right properties in the right area for the right price

1.

Our real estate purchases are not limited to any one specific type of property, but they typically share the common characteristics of being income-producing in their present state and with the potential for further enhancement

We do not just know London, we have a detailed knowledge of each of our 17 different "villages within the capital, their characters and culture and understand the sorts of people who work and live in them We can map a distinctive future for each of them and it is this knowledge which allows us to judge where to buy and for how much we acquire where we perceive value and growth potential

We have developed a reputation for anticipating the locations of tomorrow Examples of this include our long-standing presence in Clerkenwell as well as the concentration of properties close to Crossrail stations

Devise the right strategy for each property

2.

While our essential approach to every property is consistent, we create a unique solution for each Our business model has been proven and refined over time, it concentrates on refurbishment and regeneration of existing buildings and, only when necessary, outright redevelopment

Through innovative planning solutions we look to add floorspace and therefore, value to our buildings We don't build "run-of-the-mill" properties, we create exciting spaces focused on strong design and high quality construction but most importantly offering good value for tenants We draw on our extensive experience and expertise to select the right team for each job whether they are contractors, architects or designers

We work closely with each design team to reach the optimal solution which is reviewed by each department and the relevant Directors before appointing a contractor

Recent project strategies

Angel Building
– The regeneration strategy focused on re using the existing building structure to fulfil its potential with the existing tired skin being removed and the floorplates increased through the infilling of the open internal courtyard and the extension of the frontage towards the street In addition, a new floor was added incorporating a spectacular roof terrace

4 & 10 Pentonville Road
– Two neighbouring buildings linked through a unified frontage with flexible floorplates and two reception areas to widen the appeal to a greater range of occupiers and increase the floor area by over 20%

1-2 Stephen Street (formerly Central Cross)
– Long term strategy for enhancing the image and product together with the feel and surroundings
– New identity and ground floor remodelling
– Additional office and studio space
– Conversion of car park to basement retail
– Expansion of retail frontage

Successful and timely planning

3.

The planning process has become increasingly time-consuming and expensive in recent years and it is therefore more important to ensure all issues are considered before an application is lodged

We work closely with planning officers and engage with the local community and relevant stakeholders

The design quality and regenerative aspects of our projects are subject to a detailed environmental impact assessment This deals in detail with the effect of our projects on their local environment, assisting our ability to progress our planning applications to a successful conclusion

→ **see page 40**

Property lifecycle

"Effective execution is as important to us as devising the right strategy and these both define Derwent London at every stage of the property lifecycle"

John Burns
Chief Executive Officer

Closely monitored construction

4.

It is vital that each of our schemes is completed on time and on budget, both in terms of minimising capital spend and in bringing the property to market as quickly as possible The costs and progress of each project are constantly monitored against budgets by our development team and experienced project managers

Our contractors are selected from a short list of well-regarded firms and, whilst there is a balance to be achieved we always place a premium on high quality

We have excellent relationships with all the firms we employ and are regarded by consultants as good to work with, being firm but fair

Let promptly to strong tenants

5.

The letting process is assisted by the quality of our properties and the knowledge and expertise of our letting team as well as our approach to leasing From the beginning we work hard to understand tenants requirements Principal-to-principal negotiations are carried out as soon as an introduction is made This enables us to meet each potential tenant early in the process, which leads to deeper mutual understanding and a quicker transaction

This process has contributed to our low vacancy rates compared to our peers (on average over the past ten years our vacancy rate has been 120 basis points below the market average) and our 2011 year end EPRA vacancy rate was 1 3%

On larger schemes we will always consider a pre-let of part or all of the space to de-risk the project By estimated income, over 50% of our on-site projects are pre-let or under offer

Both our letting expertise and the ability to capture pre-lets significantly reduce the void period between completion and occupation by a tenant thus reducing our exposure to business rates and service charges as well as positively impacting income

It is not only important to let space quickly but also to let to the right tenant We have extremely stringent covenant checks for all our prospective tenants and require deposits or guarantees if necessary This approach has resulted in very low tenant failure rates over recent years

Recent scheme pre-lets

Horseferry House (2008)	– 100% pre let
Charlotte Building (2009)	– 27% pre let, fully let within 10 months
Angel Building (2010)	– 48% pre-let fully let within 13 months
33 George Street (2011)	– 100% pre let
88 Rosebery Avenue (2011)	– 100% pre-let
Central Cross Phase 1 (2013)	– 67% pre let
1 Page Street (2013)	– 100% pre let

Recycle capital / retain for income

6.

At the end of this process, which may take five years or 25 years, we may continue to hold the property for income or the capital may be recycled through disposal to start the process again

In the past five years we have disposed of £640m of properties

Key performance indicators and metrics

We outperformed all of our key performance indicator benchmarks in 2011

Key performance indicators

Maximise overall returns from the portfolio

Total return

We aim to exceed the return from the combination of NAV growth and dividends achieved by the other major REIT companies using an annualised calculation based on publicly available information

	Performance %	Benchmark %
2011	**17 4**	**10 9**
2010	29 3	19 9

Maximise returns from the investment portfolio

Total property return

We aim to exceed the IPD Central London Offices Index on an annual basis

	Performance %	Benchmark %
2011	**13 4**	**12.5**
2010	21 3	23 0

We also aim to exceed the annualised IPD All UK Property Index return on a three year rolling basis

	Performance %	Benchmark %
2011	**12 1**	**8 8**
2010	1 4	(1 2)

Maximise returns from the investment portfolio

Void management

We plan ahead to minimise the space immediately available for letting and this should not exceed 10% of the portfolio's estimated rental value

	Performance %	Benchmark %
2011	**1 3**	**<10**
2010	5 9	<10

→ see page 32

Maximise cash flow

Tenant receipts

We aim to collect more than 95% of rent invoiced within 14 days of the due date throughout the year

	Performance %	Benchmark %
Q1 2011	96	
Q2 2011	97	
Q3 2011	99	
Q4 2011	98	
2011 average	**98**	**95**
2010	96	95

Financial stability

Interest cover ratio

We aim for our gross rental income to be at least twice our net interest payable. This measures our ability to meet our interest obligation and is similar to that in many of the Group's security-specific bank covenants

	Performance %	Benchmark %
2011	**307**	**>200**
2010	328	>200

Environmental sustainability

BREEAM ratings

All developments in excess of 5,000m² to obtain a Building Research Establishment Environmental Assessment Method (BREEAM) rating of "Very Good" or above

There were no project completions in excess of 5,000m² in 2011. However, since the end of 2007 our three major completions have received at least a "Very Good" rating and the Angel Building received an "Excellent" rating in 2010. The table below shows the expected ratings for 2012/13 completions

	Completion	Expected rating
4 & 10 Pentonville Road	Q3 2012	Very Good
Buckley Building	Q4 2012	Very Good
Morelands Buildings	Q4 2012	Outstanding
1 Page Street	Q2 2013	Excellent

There are a number of further metrics which, whilst they do not constitute key performance indicators, nevertheless we find useful in monitoring the performance of the business

Key metrics

Objective	Measure
Future capital growth	**Development potential** We monitor the proportion of our portfolio that has the potential for refurbishment or redevelopment

Objective	Measure
Future rental growth	**Reversionary percentage** This is the percentage by which the rental income cashflow would increase, were the passing rent to be increased to the estimated rental value

	Reversion %
2011	**42**
2010	27

Objective	Measure
Environmental sustainability	**Energy Performance Certificates (EPC)** We design projects to achieve a "B" certificate for all new-build projects over 5,000m² and a minimum of "C" for all refurbishments over 5,000m²

As mentioned earlier no projects in excess of 5,000m² were completed in 2011. The anticipated certificates for the refurbishments currently on site are as follows

	Anticipated rating
4 & 10 Pentonville Road	C
Buckley Building	C
Morelands Buildings	B
1 Page Street	C

Key metrics continued →

Key performance indicators and metrics

Key metrics continued

Objective	Measure	Progress
De-risking of income stream	**Diversity of tenants** A diverse tenant base, both in number and across different industries, protects our income stream	→ see principal tenants and profile of tenants' business sectors charts on **page 13**
Continuity of income	**Tenant retention** It is important, where we wish to retain income, we maximise tenant retention following tenant lease breaks or expiries and minimise any void period	2011 2010 Rental income exposure (£m pa) **16.2** 11.5 Retention (%) **72** 72 Re-let by year end (%) **21** 17 Total income retention (%) **93** 89
Financial stability	**Gearing** Consistent with others in its industry the Group monitors capital on the basis of balance sheet gearing and the loan to value ratio	Balance sheet gearing % / Loan to value % **2011** **50.4** **32.0** 2010 59.4 35.7
Financial flexibility	**Available resources** We ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities and we carefully monitor our headroom	Headroom £m / Immediately available £m / Unsecured properties £m **2011** **476** **469** **589** 2010 261 245 484
Maximise returns to the investment portfolio	**Capital return** We compare our performance against the IPD Central London Offices Capital Growth Index	Performance % / Benchmark % **2011** **7.6** **7.3** 2010 15.7 16.6
Maximise returns to shareholders	**Total shareholder return** We compare our performance against the FTSE All-Share Real Estate Investment Trust Index[1]	Performance % / Benchmark % **2011** **2.9** **(7.9)** 2010 22.9 11.0

[1] In accordance with industry best practice. The benchmarks have been calculated using a 30-day average of the returns.

Risk management

Risk management and internal control

Risk is an inherent part of running a business and, whilst the Board 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.

During 2011, the Board recognised the raised profile being given to risk management in the UK Corporate Governance Code and decided to establish a Risk Committee to increase the focus of the Group's work in this area. The committee first met in November 2011 and consists of June de Moller, John Burns and Damian Wisniewski under the chairmanship of Stephen Young.

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 in place. This approach allows the effect of any mitigating procedures to be considered and recognises that risk cannot be totally eliminated at an acceptable cost. There are also some risks that, with its experience and after due consideration, the Board will choose to accept.

The register, its method of preparation and the operation of the key controls in the Group's system of internal control is then reviewed and commented upon by the Risk Committee before being considered and adopted by the full Board. The register was reviewed between December 2011 and February 2012 and the principal risks and uncertainties that the Group faces in 2012 together with the controls and mitigating factors are set out below.

Strategic risks

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

Risk and effect	Controls and mitigation	Action
– The Group's strategy is inconsistent with the state of the market in which it operates – The Group's development programme is not consistent with the economic cycle – The Group benefits from a strong central London market and this could be adversely affected by, amongst other factors, ongoing crisis in the Eurozone, the introduction of a "Tobin" tax or the loss of London's current investment "safe haven" status	– Each year the Group carries out a five-year strategic review, prepares a budget and also produces frequent rolling forecasts covering the next two years. In the course of these exercises the Board considers the effect on key ratios of changing the main underlying assumptions – The Group's plans can then be set so as to best realise its long term strategic goals given the likely prevailing economic and market conditions. This flexibility arises from the policy of maintaining income from properties as far as possible until development starts – Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable – The risk remains significant and therefore in setting its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios and covenants and interest cover	– The Board carried out its last annual strategic review in June 2011 and considered the sensitivity of six key measures to changes in eight underlying assumptions including interest rates, property yields, rental growth and levels of capital recycling – 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 and effect	Controls and mitigation	Action
– A substantial decline in property values or a material loss of rental income could result 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 overall balance sheet gearing Treasury control schedules are updated weekly whilst the rolling forecasts enable any potential problems to be identified at an early stage and corrective action to be taken – The Group has considerable headroom under its financial covenants, operates at a modest level of gearing and has a substantial amount of uncharged property that could be used in such circumstances	– The Group issued £175m of unsecured convertible bonds during 2011 – The Group tested its compliance with its financial covenants regularly and operated comfortably within these limits throughout 2011 Property values could decline by 50% at the balance sheet date before there would be a breach of financial covenants – At the year end the Group owned £589m 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 enable any financing requirement to be identified at an early stage This allows the preferred source of finance to be identified and evaluated and, to a degree, raised when market conditions are favourable	– The Group's financing comes from a number of different sources/providers and has a varied maturity profile The proportion of the Group's borrowings provided by bank loans has fallen from 80% to 59% over the year – During 2011 the Group refinanced £600m – The weighted average duration of the Group's debt is 4 4 years – At the year end the Group had £469m of undrawn 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	– The Group has terminated two interest rate swaps which were at historic rates and initiated new instruments which have enabled the Group to lock in the lower rates that are available – 98% of borrowings were fixed or hedged at the year end

Operational risks

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

Risk and effect	Controls and mitigation	Action
– 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 – Regular cost reports are presented to the Board which monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage – Post-completion reviews are carried out for all developments to ensure that improvements to the Group's procedures are identified and implemented	– 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 includes the use of top firms of quantity surveyors and is designed to minimise uncertainty regarding costs – Development costs are benchmarked to ensure that the Group obtains competitive pricing – The Group's style of accommodation remains in demand as evidenced by the 100 lettings achieved in both 2010 and 2011 – The Group has secured pre-lets for approximately 50% of the space in its current development programme which significantly "de-risks" those projects
– The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. In particular, in the current adverse economic conditions, there is increased stress on consumer spending which could lead to higher business failures	– All prospective tenants are considered by the Group's credit committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. 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 117 potential tenants during the year. The committee also monitors the content of a schedule of the tenants that the property managers are monitoring and the actions being taken – In total the Group holds rental deposits amounting to £11.3m – On average, the Group has collected 98% of the rents due within 14 days of the due date
– The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills – The Group's cost base is increased or its reputation damaged through a breach of any of the legislation that forms the regulatory framework within which the Group operates	– The remuneration packages of all employees are benchmarked regularly – Six-monthly appraisals identify training requirements which are fulfilled over the next year – The new Risk Committee will report to the Board concerning the Group's regulatory risk – The Group employs a Health and Safety Manager – A sustainability committee chaired by Paul Williams and advised by external consultants addresses risk in this area	– The Group has recruited eight new members of staff during the year including key appointments in IT and corporate communications – Staff turnover during 2011 was low at 6% – A Health and Safety report is presented at all executive and main Board meetings – The Group pays considerable attention to sustainability issues and produces a sustainability report annually

4 & 10
Pentonville Road
N1

The refurbishment of the two existing office buildings is underway The buildings are being linked and reclad in Danish Petersen brick, with a Scandinavian-style interior This will unify the street elevation, upgrade the

office space and increase the overall net floor area by over 20%. Completion is due in late 2012

Type Offices
Size 55,000 sq ft (5,110m²)
Completion date 2012
Architect Stiff + Trevillion

Property review Valuation

In 2011, London continued to be investors' UK location of choice with strong domestic and international demand This appetite, in a market with a scarcity of properties for sale coupled with rental growth performance, enabled London's commercial property values to outperform the rest of the UK again

Nigel George
Executive Director

In the first half of 2011, the investment market saw a marginal tightening of valuation yields and an improving rental growth trend However, with the increased economic uncertainty in the Eurozone in the second half, sentiment was moderated and this stabilised yields and limited rental growth

Within this environment the Group's investment portfolio was valued at £2 6bn at 31 December 2011 The valuation surplus was £181 7m for the year, before lease incentive adjustments of £9 6m, giving a total movement of £172 1m This valuation movement was below the £301 7m in 2010, a year when yield compression across the portfolio was more widespread

The underlying valuation increase over the year was 7 6%, or 8 8% if property sales completed during the year had been retained and valued at their disposal level Both were an outperformance against our comparative benchmark measures, the IPD Capital Growth Index for Central London Offices at 7 3%, and the IPD All UK Property Index at 1 7% Valuation performance was stronger in the first half of the year with a 4 6% increase, slowing to 2 9% in the second half as the rate of rental growth eased

Our London portfolio saw underlying capital values grow by 7 9% over the year Within this, West End properties increased by 8 1% and City border properties rose by 7 1% The remaining 4% of the portfolio, our Scottish assets, increased by 1 5% over the year

Our projects that are currently on site and encompass the entire building, namely 1 Page Street, Buckley Building and 4 & 10 Pentonville Road were valued at £96 2m as at 31 December 2011 This reflects a valuation uplift of 4 8% over their value on 31 December 2010 or date of purchase if later These projects are at a relatively early stage of development and offer the potential for material valuation uplift in the future

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance %	Valuation performance [1] £m	Total floor area m²	Available floor area m²	Project floor area m²
West End							
Central	1,806.7	68	6.1	100.9	285,100	1,100	46,200
Borders	231.4	9	25.8	46.3	53,000	700	6,300
	2,038.1	77	8.1	147.2	338,100	1,800	52,500
City							
Borders	493.7	19	7.1	32.7	126,100	3,700	12,300
Central London	2,531.8	96	7.9	179.9	464,200	5,500	64,800
Provincial	114.7	4	1.5	1.8	37,200	200	–
Total portfolio 2011	**2,646.5**	**100**	**7.6**	**181.7**	**501,400**	**5,700**	**64,800**
2010	2,426.1	100	15.7	309.4	500,200	24,500	17,600

[1] Properties held throughout the year
[2] Including acquisitions
[3] Before lease incentive adjustments of £9.6m

8.8%

underlying valuation increase (including property sales)

6.3%

2011 increase in underlying estimated rental value

As shown by our buoyant 2011 letting activity, good tenant demand moved rents forward and this growth was the principal driver in valuation performance. Over the year, the underlying estimated rental value increased by 6.3% (2010: 5.4%). Rental growth in the first half of the year was 4.1% before moderating to 2.1% in the second half as economic uncertainty increased.

On an EPRA basis, the portfolio's net initial yield was 4.4%, which would rise to 5.2% on a "topped-up" basis following the expiry of rent-free periods and contracted rental uplifts. The net reversionary yield was 5.8%.

The portfolio's true equivalent yield at 31 December 2011 was 5.61% against 5.65% at the half year and 5.77% at the end of 2010, reflecting the general yield stabilisation seen across the investment market, whereas there was a 67 basis point yield compression in 2010. On a total property return basis, the portfolio delivered 13.4% in 2011 compared to 21.3% in 2010. The IPD Total Return Index was 12.5% for Central London Offices and 7.8% for All UK Property.

"The positive regenerative impact of Crossrail is increasingly apparent in our villages close to Tottenham Court Road and Farringdon."

John Burns
Chief Executive Officer

Property review
Portfolio management

Active asset management is a cornerstone of the business and we made significant achievements in a number of areas during 2011 Letting activity was strong with a high volume of transactions at above estimated rental values whilst voids were kept to a minimum We saw excellent tenant retention and rent collection remained prompt Rent reviews and lease renewals captured portfolio reversion

Paul Williams
Executive Director

Letting activity
Our well-designed, mid-priced offices continued to prove popular and 2011 was another exceptional period of leasing activity In total, we concluded 100 lettings on a floorspace of 495,700 sq ft (46,050m²) and a rental income of £16 7m pa, the highest ever level achieved by the Group In 2010, we concluded a similar number of lettings but at £8 0m pa on a floorspace of 347,000 sq ft (32,200m²)

Lettings comprised £8 5m pa in the first half of the year and £8 2m pa in the second half Two thirds of the lettings were "new income" as the floorspace concerned was producing a total rent of £5 3m pa at the start of 2011

Open market transactions for the year accounted for 88% of the activity and achieved rents 11 2% higher than their December 2010 estimated rental values The uplift was 8 9% for overall lettings, which include short-term transactions at our future development projects In the second half of the year, open market transactions were 5 9% above June 2011 estimated rental values whilst overall transactions were 4 6% above

11.2%

Open market lettings at 11 2% above December 2010 ERV

Lettings during the year included

- **Angel Building,** 407 St John Street EC1 – this award-winning 263,000 sq ft (24,400m²) regeneration project, which completed in September 2010, became fully let in November 2011 following seven lettings during the year totalling £5 5m pa on 136,500 sq ft (12,680m²) Expedia, the world's largest online travel company, took 93,400 sq ft (8,680m²) of office space at £3 8m pa whilst Sage Pay and NG Bailey took 29,800 sq ft (2,770m²) at £1 2m pa The retail units totalling 13,300 sq ft (1,230m²), attracted well known names – Jamie's Italian, Busaba Eathai and Hummingbird Bakery – at a total rent of £0 5m pa During the year the Angel Building was shortlisted for the RIBA Stirling Prize and won numerous accolades including RIBA London, the British Council for Offices and the British Construction Industry awards
- **88 Rosebery Avenue** EC1 – 49,000 sq ft (4,550m²) of offices were pre-let to City University at £1 2m pa at this refurbishment which involved just under half of the building
- **1-5 Grosvenor Place** SW1 – whilst we progress the development plans here through the recent headlease regear (see "Activity in 2012"), we continue to optimise income through shorter term lettings Nine transactions were concluded in 2011 at a rent of £1 2m pa, covering 26,600 sq ft (2,470m²), which was 4 8% above December 2010 estimated rental values
- **Tea Building,** Shoreditch High Street E1 – nine office lettings were concluded at this landmark property totalling £1 2m pa, 31% ahead of December 2010 estimated rental values, on a floorspace of 41,000 sq ft (3,810m²) With the ever-improving micro-market in the area and our recent environmentally-friendly "Green Tea" fit-out of several units, rents achieved during the year averaged £29 per sq ft (£310 per m²) with an all-time high for the building of £32 50 per sq ft (£350 per m²) in the third quarter With a total rental income of £4 5m pa and an estimated rental value of £6 2m pa, the building remains highly reversionary At the year end, this 250,400 sq ft (23,260m²) building had an occupancy rate of 97% with the balance of space under offer
- **Johnson Building,** 77 Hatton Garden EC1 – 22,300 sq ft (2,070m²) was let to Lastminute com at £0 95m pa equating to £42 50 per sq ft (£455 per m²) and the highest level achieved in this building

Through asset management initiatives during the year, we captured further reversion within the portfolio and concluded 52 rent reviews and lease renewals that increased the Group's income by £0 9m pa a 14 1% uplift on the previous income

"Having been one of the pioneering tenants of the Tea Building in 2004, we are greatly appreciative of the way that Derwent London has accommodated our needs as a growing business, including our expansion within the building To go from a converted warehouse to the best known creative hub in Shoreditch is testament to Derwent London's success in fulfilling their vision"

Buckley Gray Yeoman
Tea Building E1

"As an iconic British luxury brand with a thriving modern culture today, we consider the quality of our real estate vital to the health of our brand and business Derwent continues to be a dynamic partner to Burberry in realising our architectural ambitions through our headquarters buildings in London"

Burberry Group plc
Horseferry House SW1 / 1 Page Street SW1

"Lastminute com is delighted to be relocating to the Johnson Building, which is in the heart of the city and is a building designed to support the growing needs of our dynamic business"

Lastminute com
The Johnson Building EC1

"We needed a great new home for Innocent Working with Derwent allowed us the creative freedom to really make the space work for us They were instrumental in enabling us to meet our objective of creating an inspirational environment to help our people do their best work It has been great working with such an intelligent and open minded landlord both developing the site and subsequently as tenants"

Innocent Drinks, Fruit Towers
Portobello Dock W10

£16.7m pa

An exceptional year with 100 lettings at £16 7m pa

Tenant retention and rent collection
Although 19% (£21 4m) of the Group's 2010 year end income was subject to lease breaks and expiries during the year, tenant retention remained strong across the business Excluding those where projects were imminent, the total exposure to lease breaks and expiries was 14% (£16 2m) Of this, 72% of income was retained (2010 72%), 21% re let prior to the year end (2010 17%) and a further 2% re let or placed under offer since the year end

Rent collection continued to be prompt with on average 98% collected within 14 days of the due date This is above the KPI collection target of 95% and compares with 96% in 2010

Vacancy rate
With our strong letting activity and active portfolio management, the portfolio's EPRA vacancy rate by rental value, measured as space immediately available for occupation, ended the year at 1 3% or £1 9m pa Half of this space has either been let subsequently or is under offer This compared to 5 9% at the start of the year and 4 0% in June By available floorspace the year end vacancy rate was 1 3% down from 4 9% a year earlier and 3 5% at the half-year This compared favourably to the CBRE central London rate that decreased from 5 5% to 5 2% during the year

Our five principal on-site projects have an estimated rental value of about £13m pa and, upon completion would increase the Group's vacancy rate to around 9% However, after adjusting for pre-lets and space under offer the rate would reduce to approximately 5%

Property review
Portfolio management

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		113 1
Contractual rental increases across the portfolio	20 8	
Letting 5,700m² available floor area	1 9	
Completion and letting 64,800m² of project floor area	18 7	
Anticipated rent review and lease renewal reversions	5 9	
Portfolio reversion		47 3
Portfolio estimated rental value		160 4

Activity in 2012

Letting activity has continued into 2012, with the completion of a further 153,100 sq ft (14,220m²) of transactions at a rental income of £6 0m pa

These included 1 Page Street SW1 where we are pleased to announce that Burberry will be increasing their presence in our portfolio by pre-letting the entire 127,000 sq ft (11,800m²) building for £5 3m pa This reflects a level of £50 per sq ft (£540 per m²) on the top three floors with £45 per sq ft (£485 per m²) on a typical mid-level floor The lease is for a 20-year term with a tenant-only break option in year ten and a rent-free period equivalent to 22 months The first review after five years will be subject to a minimum uplift to £5 7m pa An amendment to the existing planning consent has been submitted and approval is anticipated shortly The completion of the lease is conditional on obtaining satisfactory consent

We are also pleased to announce that we have signed a joint venture agreement with Grosvenor, our freeholder, for the future redevelopment of 1-5 Grosvenor Place, Belgravia SW1 As part of the transaction our headleases, which were due to expire in 2063 and 2084, have been regeared into a new 150-year term at a ground rent of 5% of rental income Simultaneously, the Group has sold 50% of its ownership to Grosvenor and received £60m before costs Having assembled the ownership over many years this initiative protects our value through the headlease regear and unlocks the opportunity for a substantial and prestigious mixed-use scheme likely to include a luxury hotel and commercial and residential space The existing buildings, totalling 168,000 sq ft (15,600m²), are fully let at a gross income of £6 2m pa and occupy a prime 1 5 acre (0 6 hectare) island site, which overlooks Hyde Park Corner Following the transaction our share of the income is £2 95m We are in the process of selecting architects to work on this scheme

£6.0m pa

153,100 sq ft (14,220m²) let in January and February 2012

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	77 5	328	13 3	13 0	103 8	8 0
Borders	4 8	105	2 0	9 3	16 1	7 2
	82 3	292	15 3	22 3	119 9	8 0
City						
Borders	25 2	231	5 3	3 8	34 3	4 8
Central London	107 5	275	20 6	26 1	154 2	7 2
Provincial	5 6	150	–	0 6	6 2	6 3
Total portfolio 2011	**113 1**	**264**	**20 6**	**26 7**	**160 4**	**7 2**
2010	116 2	255	13 5	17 6	147 3	7 3

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

Property review
Investment activity

Our balance sheet puts us in a strong position We are buyers, but we need to see good value and are still prepared to recycle capital selectively

David Silverman
Executive Director

Acquisitions
Further depth was added to our development pipeline with acquisitions in 2011 totalling £87 5m before costs

- **1 Page Street** SW1 – this vacant office building, located close to our Horseferry House holding in Victoria, was acquired in March for £45 0m As outlined in the "Activity in 2012" section, we have pre-let the entire building to Burberry
- **Network Building,** 95-100 Tottenham Court Road W1 – the headlease of this 64,000 sq ft (5 900m²) multi-let Fitzrovia office and retail property was purchased for £31 0m in April The Group already owned the freehold and, by merging the interests we are able to consider a more substantial redevelopment in the future Income from this building is £2 1m pa which should rise to £2 7m pa on the letting of the vacant office space
- **Morelands Buildings,** 5-27 Old Street EC1 – the headlease of this popular, multi-tenanted Clerkenwell property was regeared for an outlay of £5 8m before costs in the first half of the year, extending our tenure from 45 to 125 years and increasing our development rights This regear facilitates a phased refurbishment and extension of the property with Phase 1, which has been mostly pre-let now underway incurring capital expenditure to complete of £5 6m
- **423-425 Caledonian Road** N7 – this 18 300 sq ft (1,700m²) office building was purchased for £5 6m in June and produces an income of £0 3m pa It is opposite an existing holding Balmoral Grove Buildings, where we are formulating a residential planning application

£132.5m

of disposals

38%

above December 2010 valuation

Disposals
During the year the Group took the opportunity to recycle capital through the disposal of a mixture of mature and smaller assets Sales totalled £132 5m before costs, had an income of £3 2m pa and gave rise to an overall surplus of £36 1m or 38% above the December 2010 valuation These included

- **Covent Garden Estate** WC2 – this 71,900 sq ft (6,680m²) mixed-use holding of five freehold properties that produced £2 5m pa, was sold for £68 0m
- **Victory House**, 170 Tottenham Court Road W1 – following an extensive refurbishment, this 48,000 sq ft (4,460m²) mixed-used property was sold for £37 2m
- **79-89 Pentonville Road** N1 – this 35,600 sq ft (3,310m²) low income producing property was sold for £11 0m
- **18-30 Leonard Street** EC2 – the long leasehold interest of this cleared site, with planning consent for 47 residential units and 20,000 sq ft (1,860m²) of offices, was sold for £11 0m
- **Harp House,** 83 86 Farringdon Street EC4 – at the expiry of the existing lease, this 14 300 sq ft (1,330m²) property was sold for £5 0m in December with vacant possession

In addition in December 2011 we exchanged conditional contracts to sell Riverwalk House SW1 and 232-242 Vauxhall Bridge Road SW1 for £77 3m to Ronson Capital Partners with completion subject to receipt of satisfactory planning permission A planning decision is expected shortly The Group will maintain an interest in the development by way of a profit overage arrangement and will work closely with the purchasers to enhance our expertise in residential projects

Following the year end, at 1-5 Grosvenor Place SW1, we restructured our ownership and sold a 50% interest in the new headlease to Grosvenor for £60m as part of our joint venture arrangements for the future redevelopment of this site (see "Activity in 2012")

Property review Projects

We have made significant progress in unlocking the value at a number of our projects and look forward to advancing our existing pipeline

Simon Silver
Executive Director

During the year we made excellent progress with our development programme through the completion of a range of refurbishments, the advancement of our on-site projects and the receipt of six major, value-creating planning consents. These total 0.9 million sq ft (82,500m²) and relate to 80 Charlotte Street W1, City Road Estate EC1, Tummill EC1, Buckley Building EC1, 4 & 10 Pentonville Road N1 and the first phase of Central Cross W1. We await decisions on a number of other significant planning applications made in 2011 including 1 Oxford Street W1 and Riverwalk House SW1.

Despite the difficult state of the economy, we are encouraged by the strength of our letting activity and the relatively moderate level of space available to rent in our key markets. Our current development programme, which is either on-site or scheduled to commence in 2012, totals just over 0.5 million sq ft (46,500m²) on seven projects. These will have a potential net rental income of around £20m pa and will incur total capital expenditure of approximately £137m.

Review of 2011 activity

In 2011, the Group completed 219,400 sq ft (20,380m²) of projects – 91,400 sq ft (8,490m²) in the first half of the year and 128,000 sq ft (11,890m²) in the second. After the disposal of Victory House, these are now fully let at £5.2m pa.

The principal completions were:

- **33 George Street** W1 – Pandora Jewellery pre-let the entire 13,000 sq ft (1,210m²) refurbished building, which was completed in January 2011, for £0.7m pa.
- **Victory House**, 170 Tottenham Court Road W1 – following completion of this 48,000 sq ft (4,460m²) mixed-use scheme in July, the building was sold (see 'Disposals").
- **88 Rosebery Avenue** EC1 – a 49,000 sq ft (4,550m²) refurbishment that was completed in December and pre-let to City University for £1.2m pa.

Smaller refurbishments at the Tea Building E1, Holden House W1, Morelands Buildings EC1 and 55-65 North Wharf Road W2 were also completed in the year. Overall, excluding capitalised interest, £41.0m of capital expenditure was invested in the portfolio in 2011.

At year end, five principal projects were on site totalling 338,000 sq ft (31,400m²) with an estimated net rental value of £13m pa and a capital expenditure to complete of £68m. By estimated income, 50% of these are pre-let or under offer. The schemes are:

- **1 Page Street** SW1 – this 127,000 sq ft (11,800m²) office building has been pre-let to Burberry (see "Activity in 2012"). As part of the agreement with Burberry as well as internal refurbishment and extension, the building will be reclad with an elegant masonry façade. This approach has enabled us to increase the floor area by 8% from the 118,000 sq ft (10,960m²) at the time of acquisition. We await planning approval for these amendments. Total capital expenditure to complete is estimated at £30m and it is anticipated that the building will be handed over to Burberry in mid 2013.
- **Buckley Building** (formerly Woodbridge House) 49 Clerkenwell Green EC1 – planning consent for this scheme was gained in May 2011 to refurbish and extend the existing building by 13% to 85,000 sq ft (7,900m²). Work is due to complete towards the end of 2012. To improve the building's identity, the office entrance is being repositioned from Aylesbury Street to the more prominent Clerkenwell Green. We have received some good early interest on this building and the Group continues to receive a rental income of £2.5m pa until March 2015 from an agreement with the previous tenant, which considerably derisks this project.

Property review
Projects

- **4 & 10 Pentonville Road** N1 – this 55,000 sq ft (5,110m²) office refurbishment, opposite our Angel Building, gained planning consent in April 2011. The two existing buildings will be linked and remodelled, increasing the previous floor area by over 20%. Completion is scheduled for mid-2012.
- **Central Cross (Phases 1 & 2)** W1 – planning permission was obtained in September 2011 for the remodelling and extension of the main office entrance that will create 23,000 sq ft (2,140m²) of ground floor offices. Strip out work commenced in December on this first phase of this regeneration, with delivery due in late 2013. We expect to coincide these works with Phase 2 that will include a further office refurbishment of 21,000 sq ft (1,950m²). We have placed 15,400 sq ft (1,430m²) of Phase 1 under offer and we intend to rebrand the building going forward as 1-2 Stephen Street.
- **Morelands Buildings**, 5-27 Old Street EC1 – following a headlease extension, this multi-let building is undergoing a rolling refurbishment with 27,000 sq ft (2,510m²) in the current phase. This includes a fourth floor refurbishment and new fifth floor of 17,800 sq ft (1,650m²) which have been pre-let at £34.50 per sq ft (£370 per m²) and £37.50 per sq ft (£405 per m²) respectively and which are due to complete by the end of 2012.

Projects – 2012

In the year ahead, we are due to commence two exciting new-build projects totalling 170,000 sq ft (15,800m²) with a net estimated rental value of over £7m pa.

- **40 Chancery Lane** WC2 – a second half start is proposed at this 100,000 sq ft (9,300m²) six-storey Midtown office scheme. In February 2012, to enable the redevelopment, we exchanged conditional contracts to restructure and extend our interests into a new 128-year lease with our freeholder, the Colville Estate. Completion will take place on achieving vacant possession, and will replace a 17-year unexpired headlease held on the majority of the site, the relinquishing of a minor freehold element and the extension of our ownership to include an adjacent building where the Group had no previous interest. The ground rent gearing is 18% of rental income, with the opportunity for the Group to pay a premium to reduce this to 10%. The freeholder will receive a share of the project's profits above a target return. Completion is anticipated towards the end of 2014 and the project will incur capital expenditure estimated at £44m.
- **Turnmill**, 63 Clerkenwell Road EC1 – this 70,000 sq ft (6,500m²) office development was granted planning permission in September 2011. It offers a substantial regeneration opportunity in an area that will benefit from the arrival of Crossrail at nearby Farringdon station in circa 2018. Capital expenditure is anticipated to be £26m with completion due in mid 2014.

At **132-142 Hampstead Road** NW1, following the Government's January 2012 decision to proceed with the HS2 high speed rail link, we have reluctantly decided to put on hold the 265,000 sq ft (24,600m²) office and residential redevelopment. This decision is due to the expectation that our ownership will be compulsorily purchased should HS2 be built. Despite having been in advanced negotiations for substantial office pre-lets, the considerable capital expenditure of around £90m needed to complete the project and the uncertainty as to its future leads us to believe that the risk to proceed with the planned redevelopment is too great. We are now considering several "light touch" refurbishment options that will allow us to offer space on flexible terms.

Projects – 2013 and onwards

During the year our development team advanced a number of major future projects that could commence from 2013. These were made up of planning permissions granted, planning applications submitted and appraisal studies.

Planning permissions included:

- **80 Charlotte Street** W1 – this 367,000 sq ft (34,100m²) mixed-use Fitzrovia development providing 320,000 sq ft (29,700m²) of offices together with residential and retail space and a new public park, was granted planning permission by the Mayor of London in September 2011. This island site, located in the heart of Fitzrovia, currently comprises 200,000 sq ft (18,600m²) of outdated offices. The new scheme will be a major step in the wider regeneration of the area. Construction is due to commence after the existing leases expire in March 2013. Total anticipated capital expenditure is around £125m with delivery expected in 2015.
- **City Road Estate** EC1 – this major 289,000 sq ft (26,800m²) office-led development, located at Old Street roundabout within the Government's "Tech City", was granted planning permission in October. The proposed scheme reflects a 130% increase on the existing floorspace and includes a new 16 storey office building that incorporates our "White Collar Factory" concept, together with retail and residential units. The existing buildings are multi-let on flexible leases producing £0.8m pa. The Group will be looking to secure a significant pre-let prior to committing an anticipated £100m of capital expenditure.

Planning applications made during the year included:

- **Riverwalk House**, 157-166 Millbank SW1 – a planning application was submitted in October for a 121-unit 148,000 sq ft (13,700m²) high-specification residential redevelopment at this prestigious riverside location. The building has been sold, subject to receipt of satisfactory planning permission (see "Disposals").
- **1 Oxford Street** W1 – a joint planning application with Crossrail Limited was submitted in October for a 275,000 sq ft (25,500m²) mixed-use scheme at Tottenham Court Road station, which will become a major transport interchange following the completion of Crossrail. This comprises 204,000 sq ft (18,900m²) of offices, 37,000 sq ft (3,400m²) of retail space and a 350-seat theatre. The site was compulsorily purchased from the Group by Crossrail in 2009 and we have the option to re-acquire it following the completion of their station works around 2017.
- **96-98 Bishop's Bridge Road** W2 – planning permission was granted in February 2012 for a residential-led scheme of 21,400 sq ft (1,990m²), comprising 16 units, at this former 1930s cinema. It is anticipated that construction will start in early 2013.

We continue to advance a number of appraisal studies across the portfolio. This year we will be progressing our plans at **1-5 Grosvenor Place** SW1 and the retail phase of **Central Cross** W1 where planning applications will be submitted in due course.

Project summary

2012-2013	Current net income £m pa	Pre scheme area m²	Proposed area m²	Capital expenditure £m	Potential delivery Year
On site at December 2011					
1 Page Street SW1	–	11,000	11,800	29 8	Q2 2013
Buckley Building EC1	2 5	7,000	7,900	12 8	Q4 2012
4 & 10 Pentonville Road N1	–	4,100	5 100	6 9	Q3 2012
Central Cross W1 – Phases 1 & 2	0 9	3,900	4 100	12 6	Q4 2013
Morelands Buildings EC1	0 3	1,600	2 500	5 6	Q4 2012
	3 7	27,600	31,400	67 7	
2012					
40 Chancery Lane WC2	0 7	5 700	9 300	43 6	Q4 2014
Turnmill EC1	0 3	3,800	6,500	25 8	Q3 2014
	1 0	9,500	15 800	69 4	
2013					
80 Charlotte Street W1[1]	4 7	20 700	34,100	126 3	2015
96-98 Bishop's Bridge Road W2	–	–	2 000	12 0	2014
	4 7	20 700	36 100	138 3	
Planning and design				13 5	
Other				43 6	
Total	**9.4**	**57,800**	**83,300**	**332 5**	

2014 onwards	Current net income £m	Pre scheme area m	Proposed area m²	Vacant possession Year	Comment
City Road Estate EC1	0 8	11,500	26,800	2012	Consented scheme, pre-let required
Balmoral Grove Buildings N7	0 2	4,600	15 100	2013	Appraisal studies
1 5 Grosvenor Place SW1	6 1	15 600	24 200	2014/2016	Appraisal studies
55-65 North Wharf Road W2	1 0	7 200	29,100	2014	Consented scheme
Central Cross W1 – Phase 3	0 8	3 200	4 800	2014	Appraisal studies
1 Oxford Street W1	–	–	25,500	c 2017	Planning application submitted
	8 9	42,100	125,500		

Other	Current net income £m	Pre scheme area m	Proposed area m²	Vacant possession Year	Comment
Riverwalk House SW1	–	7,000	13,700	Vacant	Planning application submitted
132-142 Hampstead Road NW1	–	21,400	24,600	Vacant	Scheme options under review in light of HS2
Wedge House SE1	0 3	3,600	7 400	2012	Renewing planning permission
60 Commercial Road E1	0 5	2 800	11 300	2012	Consented scheme
	0 8	34 800	57,000		

[1] Pre-scheme area includes 18 600m² at 80 Charlotte Street W1 and 2 100m² at nearby properties

"As freeholders of 40 Chancery Lane, Colville have been working with Derwent London on this redevelopment, which will start on site later this year, and are impressed with the proposals for this new office building that will considerably enhance an important well-known central London location"

Colville Estate Properties Limited
40 Chancery Lane WC2

Planning the future

2011 was a very successful year for planning with applications for schemes totalling 82,500m² being granted

4 & 10 Pentonville Road N1

Pre-scheme size 4,200m²
Proposed size 5,100m²

22% uplift

Previously two neighbouring buildings opposite the successful Angel Building, the new unified frontage at Pentonville Road will create a distinct street presence in elegant Danish brick We received planning permission in April 2011 for this office refurbishment and extension, which will transform the old-fashioned look with tinted glass into a modern, sophisticated building Completion is expected in mid-2012

Buckley Building EC1

Pre-scheme size 7,000m²
Proposed size 7,900m²

13% uplift

We secured control of this building, which is close to Farringdon Crossrail hub from the tenant in March 2011, whilst maintaining the £2 5m pa rental income until March 2015 and gained planning permission in May 2011 It is currently being refurbished, infilling the atrium to create additional office space This can be achieved because of the old industrial nature of the building, which enjoys substantial floor to ceiling heights and large fenestration allowing high degrees of natural daylight penetration The entrance is being relocated to a more prominent location on Clerkenwell Green and the ground floor façade remodelled

1-2 Stephen Street W1 (formerly Central Cross) Phases 1 and 2

Pre-scheme size 1,950m²
Proposed size 2,140m²

10% uplift

Our plans to give this property a new identity and to transform the building are firmly progressed Phase 1 of our plan, for which we gained permission in September 2011, is underway to reconfigure the office entrance with a curvaceous glass and metal screen façade with a canopy blade overhead, and create 23,000 sq ft (2 140m²) of ground floor offices Phase 2 will offer a further refurbishment of the first floor giving us the opportunity to create higher rental levels for the building

Over 33,400m²

of additional space from 2011 planning permissions

68%

increase on the existing floorspace

Turnmill
EC1

Pre-scheme size 3,800m²
Proposed size 6 500m²

71% uplift

Planning permission was obtained in September for a new office development The building occupies a prominent corner site near to Farringdon station, which is currently being redeveloped as a Crossrail interchange It will consist of an elegant brick façade and represents a return for us to a more traditional type of building design We plan to start work on this building in the second half of 2012

80 Charlotte Street
W1

Pre-scheme size 20 700m²
Proposed size 34,100m²

65% uplift

The Mayor of London granted planning permission for this major regeneration project located in the heart of our Fitzrovia Estate in September 2011 We are proposing an office-led regeneration on and around this 1 4 acre island site This new landmark building will augment the wider regeneration of the area and includes a "pocket park" based on the New York Paley Park concept as well as retail space and residential units The scheme will commence when the current lease to Saatchi & Saatchi at a rent of £4 3m pa, expires in 2013 and will continue our plans for the regeneration and improvement of the Fitzrovia village

City Road Estate
EC1

Pre-scheme size 11,500m²
Proposed size 26 800m²

130% uplift

In October, planning permission was granted for an office-led regeneration that includes a new 16-storey office building incorporating our White Collar Factory concept This location has been identified as the centre of a Government initiative to attract technology companies and has been dubbed "Tech City"

The island site will contain different types of office styles which will suit a range of tenant occupiers It should represent a "blank canvas" for young creative up-and-coming technology companies

In order to de-risk this project it will not be progressed without a major pre-let

Planning the future

In addition to the permissions granted in 2011 shown on the previous pages, two existing permissions are being utilised

40 Chancery Lane WC2

Current size 5,700m²
Proposed size 9,300m²
64% uplift

Following the recent regear of the headlease we will be undertaking a redevelopment of this large corner site in this prime Midtown location to create a striking new six storey office building The development will include a new retail unit on Chancery Lane and a publicly accessible landscaped courtyard that will bring natural daylight to the new office floors The new building will be highly energy efficient with a low-energy cooling system compatible with opening windows and high specification glazing to create a high performance envelope

Morelands Buildings EC1 (roof scheme)

Current size 7,400m²
Proposed size 8,200m²
11% uplift

Following the headlease regear, we are currently undertaking a refurbishment on part of the building which includes a new penthouse office floor of 8 500 sq ft (800m²) plus a new courtyard and reception which will lift the ambience of the whole building Our aim is that this refurbishment will obtain an "Outstanding" BREEAM rating

The following planning applications are expected in 2012/13 for schemes totalling in excess of 82,000m²:

96-98 Bishop's Bridge Road W2

Current size 730m²
Proposed size 2,000m²
274% uplift

This is a residential scheme of 21,400 sq ft (2,000m²), comprising 16 units together with ground floor retail space, at this former 1930s Bayswater cinema Construction is expected to commence in early 2013 with completion due in late 2014

1-5 Grosvenor Place SW1

Current size 15,600m²
Proposed size 24,200m² +
55% uplift

In February 2012, we restructured our headleases and established a joint venture with our freeholder Grosvenor, to work towards the redevelopment of this prime Belgravia location The transaction gives us the opportunity to replace the existing buildings with offices residential and a high quality hotel

1 Oxford Street W1

Proposed size 25,500m²

We have an option to re-acquire this site, which was compulsorily purchased from us in 2009 upon completion of the Tottenham Court Road Crossrail station works around 2017 This is a major regeneration opportunity in a key West End location A planning application has been submitted that incorporates offices retail and theatre above what will be a major transport hub following the completion of Crossrail The project includes substantial public realm improvements and will integrate into the wider regeneration of St Giles Circus

18-30 Tottenham Court Road W1 (formerly Central Cross) Phase 3

Pre-scheme size 3,200m²
Proposed size 4,800m²
50% uplift

Subject to planning, we intend to extend the retail units on Tottenham Court Road out to the edge of the colonnade and convert car parking to basement retail increasing the existing retail space by c50% In addition, the public highway will be improved with new pavement furniture lighting and a pedestrian-friendly crossing Vacant possession can be obtained in 2014 and we are submitting a planning application in April 2012

1 Page Street SW1

Current size 11,000m²
Proposed size 11,800m²
8% uplift

This 2011 acquisition is situated opposite the Group's holding of Horseferry House It is an 11-floor office building which is currently being refurbished to provide high quality, contemporary office space with a remodelled entrance Following the involvement of the new tenant, Burberry plc who have pre-let the whole building an amendment to the planning permission has been submitted for the complete recladding using a contextual brick more in keeping with its surroundings Approval is expected in April 2012 and scheme completion is expected mid-2013

Riverwalk House SW1

Current size 7,000m²
Proposed size 13,700m²
97% uplift

This building occupies a prestigious riverside location in Victoria An agreement for sale was signed in December 2011 with Ronson Capital Partners subject to planning permission, and a planning application for a high-grade residential development for 121 residential units and 2,500 sq ft (230m²) of cafe and gallery space was submitted in October

Development pipeline

4 & 10 Pentonville Road N1

Village Islington/Camden
Type Offices
Proposed size 55 000 sq ft (5,100m²)
Completion date 2012
Architect Stiff + Trevillion

Capital expenditure to complete £7m

Buckley Building EC1 (formerly Woodbridge House)

Village Clerkenwell
Type Offices
Proposed size 85 000 sq ft (7 900m²)
Completion date 2012
Architect Buckley Gray Yeoman

Capital expenditure to complete £13m

Morelands Buildings EC1 (roof scheme)

Village Clerkenwell
Type Offices/Retail
Scheme size 27,000 sq ft (2 500m²)
Completion date 2013
Architect AHMM
Letting status 63% pre-let

Capital expenditure to complete £6m

1 Page Street SW1

Village Victoria
Type Offices
Size 127 000 sq ft (11 800 m²)
Completion date 2013
Architect PLP Architecture
Letting status 100% pre-let

Capital expenditure to complete £30m

1-2 Stephen Street W1 (formerly Central Cross) Phases 1 and 2

Village Fitzrovia
Type Offices
Scheme size 44 000 sq ft (4 100m²)
Completion date 2013
Architect ORMS

Capital expenditure £13m

Turnmill EC1

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

Capital expenditure £26m

Development pipeline

40 Chancery Lane WC2

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

Capital expenditure £44m

96-98 Bishop's Bridge Rd W2

Village Paddington
Type Residential/Retail
Proposed size 21 400 sq ft (2,000m²)
Completion date 2014
Architect Stiff + Trevillion

Capital expenditure £12m

80 Charlotte Street W1

Village Fitzrovia
Type Offices/Residential/Retail
Proposed size 367,000 sq ft (34 100m²)
Completion date 2015
Architect Make

Capital expenditure £126m

18-30 Tottenham Court Road W1 (formerly Central Cross) Phase 3

Village Fitzrovia
Type Mixed
Scheme size 52 000 sq ft (4,800m²)
Completion date 2015
Architect ORMS

1-5 Grosvenor Place SW1

Village Belgravia
Type Mixed
Proposed size 260 000 sq ft (24 200m²)

Finance review

Derwent London's net asset value increased by 15 4% to 1,701p per share on an EPRA basis and the total portfolio grew to over £2 6bn as at December 2011, helping to further reduce our already modest gearing ratios We have also focused on refinancing a significant part of the Group's debt Since the beginning of 2011, we have signed £600m of new or extended facilities, which includes the issue in June of a £175m 2 75% convertible bond

Damian Wisniewski
Finance Director

Looking back on 2011, the first half of the year showed a continuation of the relatively strong recovery in sentiment that characterised 2010 but, from mid-year onwards the UK's economic recovery slowed and stresses within the Eurozone came prominently to the surface Certain European governments found that the cost of refinancing their sovereign debt was set to rise dramatically The interdependence of banks upon banks, and banks upon sovereign support, caused market concern and political solutions were not rapid enough to curtail a substantial loss of confidence The UK emerged as something of a "safe haven pushing gilt yields to almost record lows However, confidence in the UK's domestic economy weakened in the second half, UK national debt levels also remain high and domestic consumer demand is under sustained pressure

We therefore remain some way from "normal" market conditions As a consequence, our financial initiatives in 2011 focused on pre-emptive mitigation of refinancing exposures, while also managing operational risk such as letting voids At the same time, we have worked to unlock valuable development opportunities for the future

47%

increase in net asset value since December 2009

EPRA net asset value

	2011 £m	per share p	2010 £m	per share p
Net assets	**1,714 5**		1,494 7	
Less minority interest	**(51 8)**		(45 9)	
Net assets attributable to equity shareholders	**1,662 7**	**1,636**	1,448 8	1 432
Adjustment for				
Deferred tax on revaluation surplus	**8 8**		8 9	
Less share of minority interest	**(0 6)**		(0 3)	
Fair value of derivative financial instruments	**51 9**		25 4	
Less share of minority interest	**(1 6)**		(0 4)	
Fair value of adjustment to secured bonds	**18 6**		19 4	
	771		53 0	
EPRA adjusted net assets - undiluted	**1,739 8**	**1,712**	1,501 8	1,484
- diluted		**1,701**		1,474

Adjusted net asset value per share
The Group's EPRA adjusted net asset value per share increased by 15.4% to 1,701p per share as at 31 December 2011 from 1,474p a year earlier. As usual, the main constituent of this increase was the property portfolio valuation which showed an increase of 168p per share after allowing for capital expenditure and lease incentives. Profits arising on disposals of investment properties also contributed another 35.4p per share compared with 0.9p per share in 2010.

London commercial property values have not yet recovered to their December 2007 peak levels but since December 2009, the Group has seen a cumulative increase of almost 47% in net asset value per share. Debt and gearing levels have also been reduced further in the last year and we have been able to enhance the level of undrawn and available bank facilities.

Due to an increase in the valuation of the part of 25 Savile Row W1 that the Group occupies as its head office, this part has now been reclassified from investment properties to "property, plant and equipment" in compliance with IAS 16 and IAS 40. Please refer to note 2 for further details of this minor restatement of the prior year comparative numbers.

In accordance with IFRS 5, the properties that were expected to be sold during 2012 have been included in "assets held for sale" at the balance sheet date. These are discussed in the "Disposals" section of the Property Review and amounted to £137.5m.

Group income statement
The last year was characterised by a record level of new lettings and reviews for the Group which helped gross property income to grow by 5.1% to £125.5m from £119.4m for the year ended 31 December 2010. After taking account of lease breaks and expiries, new lettings increased gross income by £3.3m compared to 2010. Properties acquired in 2010 and 2011 added £7.2m of rental income when compared with the 2010 calendar year partly due to the full year's contribution from Central Cross, while disposals only reduced rent by £1.6m. However, as we progressed schemes at Riverwalk House, Hampstead Road, 88 Rosebery Avenue and 4 & 10 Pentonville Road, the income generated from those properties fell by £4.4m when compared with the prior year. As noted last year, the Buckley Building continues to generate rental income of £2.5m pa during the construction period and beyond to 2015.

Premiums received from tenants terminating leases early totalled £1.4m after netting off the related accrued income from unamortised lease incentives. The largest premium received came from a tenant who paid £1.5m to vacate the Johnson Building in December 2011, the resulting write-off of unamortised rent accrued through the rent-free period totalled £0.9m. This lease surrender was supported by a back-to back letting to Lastminute.com at a higher rental level.

5.1%

increase in gross property income to £125.5m

Finance review

Like-for-like rental income

	Properties owned throughout the two years £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2011					
Rental income	99 1	10 6	2 1	12 3	124 1
Property expenditure	(6 9)	(0 7)	0 2	(3 5)	(10 9)
Net rental income	**92 2**	**9 9**	**2 3**	**8.8**	**113.2**
Other[1]	4 1	–	–	0 4	4 5
Net property income	**96 3**	**9 9**	**2 3**	**9 2**	**117 7**
2010					
Rental income	96 8	3 4	3 8	14 8	118 8
Property expenditure	(6 9)	(0 4)	(0 5)	(1 7)	(9 5)
Net rental income	89 9	3 0	3 3	13 1	109 3
Other[1]	3 0	–	–	0 7	3 7
Net property income	92 9	3 0	3 3	13 8	113 0
Increase based on gross rental income	**2 4%**				**4 5%**
Increase based on net rental income	**2 6%**				**3 6%**
Increase based on net property income	**3 7%**				**4 2%**

[1] Includes surrender premiums paid or received, dilapidation receipts and other income

£36.1m

profit from disposals of investment properties

Property outgoings and ground rents increased from £8 1m in 2010 to £9 8m due mainly to void costs being higher in 2011 during the post-completion period at the Angel Building until it was fully let and Riverwalk House's office tenant vacating in April 2011 In addition, surrender premiums of £1 9m were paid in 2011 of which the largest was a £1 3m payment to secure vacant possession at 210 Old Street As a result, net property income increased by 4 2% to £117 7m, a slightly lower percentage than the increase in gross rents Net rental income took account of a further recovery of £1 6m of commercial rates rebates from prior years, marginally lower than the £1 7m rates credit in 2010

Excluding the impact of acquisitions, disposals and properties under development, like-for-like net property income on an EPRA basis rose by 3 7% from 2010 and an analysis is shown in the table above

Administrative expenses increased to £22 7m from £20 9m in 2010 due mainly to increased staff and office costs As in the previous year, we have both increased and strengthened the management team and we believe this was a contributory factor to the valuable planning consents won during the year The Group's consistently strong performance over recent years has also contributed to an increase in the provision for long-term management incentives of £0 7m compared to 2010

Average borrowings during the year were about £118m higher than in 2010 In addition the impact of higher margins and fees charged on bank facilities renewed since November 2010 and the lower level of floating rate debt combined to increase net finance costs from 2010 Net finance costs, after capitalising £2 2m of interest in 2011, increased to £43 2m from £37 9m in 2010 The £175m of unsecured convertible bonds issued in June 2011 pay a cash coupon of 2 75% pa but in accordance with IFRS accounting rules we have recognised the hybrid nature of this instrument by booking an additional non-cash interest charge of 1 24% pa which added £1 0m to the 2011 finance cost In future years, the additional charge will be £1 9m pa In addition, the equity element of the convertible bond instrument of £9 4m, after costs, was recognised in reserves at the point of issue

The resulting EPRA recurring profit before tax was £52 3m for the year ended 31 December 2011 compared with £55 2m in 2010 Tax recoveries from historical positions in the UK and USA meant that EPRA earnings per share fell by less than 3% to 51 59p from 52 89p in 2010

The overall profit before taxation for the year was £233 0m compared to £352 8m in 2010, the reduction due mainly to the lower level of property revaluation movements in 2011 The surplus arising in 2011 from the revaluation of the Group's property portfolio amounted to £172 1m against £301 7m in 2010 A further contribution came from profits on disposals of investment properties in 2011 of £36 1m offset partially by the £26 5m mark-to-market deficit on interest rate swaps referred to below The gain on disposals of investment properties came from the sales of low yielding properties at Covent Garden and 78-79 Pentonville Road in the first half of the year and Victory House, 18-30 Leonard Street and Harp House in the second half In aggregate, these sales achieved 38% above December 2010 book values, after costs

Gilt yields and swap rates over the medium and long-term fell strongly in the second half of 2011 after rising a little in the first half This recent decline in rates has been quite exceptional, with the 10 year gilt hovering around 2 0% at the 2011 year end, illustrating a distinct cooling of UK growth and interest rate expectations The resulting mark-to-market deficit of £26 5m for 2011 compares with a £2 4m deficit in 2010 Interest rates have so far remained low into 2012

Taxation

The 2011 tax credit relating to the non-REIT part of the business was £1 3m This comprised a tax charge of £0 5m for the unelected share in our joint venture with the Portman Estate and a prior year tax credit of £1 8m The latter item benefited from the resolution of a long-running US tax matter resulting in a cash receipt of £0 4m In addition we were able to release provisions against UK tax enquiries amounting to £1 4m The deferred tax provision in 2011 fell slightly to £5 2m as the effect of the higher revaluation surplus was more than offset by previously unrecognised tax losses and the reduced UK corporation tax rate which falls to 25% on 1 April 2012

A strategic aim for the year was to focus on refinancing before 2012 and

£600m

of facilities were refinanced during the year

Financing, net debt and cash flow

As the Group entered 2011 it faced £32 5m of bank facilities expiring in 2012 and a further £575m due to expire in 2013 We were also very aware of the deleveraging pressures facing real estate lending banks Therefore, a principal strategic aim for the year was to focus on refinancing the majority of this requirement before 2012

We had also previously flagged that we would look to seek out non-bank sources of debt and after considering a number of other options we decided to launch a £175m unsecured convertible bond in May 2011, the first of its type by a UK REIT This was well received and was several times over-subscribed Pricing settled at a 2 75% pa coupon with an initial exercise price of £22 22 some 50% above the Group's net asset value at December 2010 This issue provides a source of unsecured debt with no corporate or asset-specific financial covenants and a low coupon It also carries a relatively modest risk of dilution given the high conversion price relative to net asset value In documenting the issue, we were able to include an allowance of up to £350m for other capital markets issues such as private placements and bonds, together with unlimited access to bank and insurance company debt We considered that this combination was unlikely to fetter our borrowing strategy over the five-year term of the bonds

We have also taken action to renew and/or extend and refinance bank facilities during the year In June 2011 the £100m bilateral revolving facility with The Royal Bank of Scotland was extended to a renewal date of April 2015 the margin increased to 120bp and steps up again in April 2012 to 175bp for loan to value (LTV) ratios up to 65% and 200bp in the less likely event that we draw above 65% LTV

Finance review

Debt facilities

	£m	Proforma £m	Maturity	£m	December 2011 £m	Maturity
6 5% secured bonds		175	March 2026		175	March 2026
2 75% unsecured convertible bonds		175	July 2016		175	July 2016
Loan notes		11	Repaid January 2012		11	Repaid January 2012
Overdraft		10	On demand		10	On demand
Committed bank facilities						
Term	28		June 2018[1]	28		June 2018[1]
Term/revolving credit	90		December 2017	90		December 2017
Revolving credit	125		November 2015	125		November 2015
Revolving credit	100		April 2015	100		April 2015
Term/revolving credit	125		April 2014	125		April 2014
Revolving credit	150		January 2017	100		November 2013
Term/revolving credit	150		March 2013	375		March 2013
Term unsecured	31 4		June 2012	31 4		June 2012
Revolving credit	150		January 2017	–		n/a
		949 4			974 4	
Total debt facilities		**1,310.5**			**1,335 5**	

All facilities are secured unless noted otherwise

[1] Subject to credit review in 2013

£175m

convertible bond issued in June

We were also able to increase the principal amount of our revolving bilateral loan facility with HSBC that expires in November 2015 from £100m to £125m This £25m increase was executed in December 2011 on the same terms as the original facility which was arranged in November 2010

Both of these transactions are indicative of the strong nature of our valued banking relationships and illustrate the increasingly binary nature of the bank loan environment For a small number of chosen borrowers, funds are available on terms that remain reasonably attractive while, for others, the facilities are either all but unavailable or are priced at a significant premium

In the second half of the year, we approached a number of potential lenders to refinance part of the £375m syndicated loan facility expiring in March 2013 that was inherited upon the merger with London Merchant Securities in 2007 Our intention was to remove the risk in relation to that part of this refinancing which was to be funded by banks while leaving a further part which could be replaced with non-bank funding in 2012 Derwent London favours facilities which are either held by one bank or by a small club of banks and we therefore preferred to avoid assembling a new large syndicated facility

After receiving several offers of funding, in December 2011 we signed a new £150m fully revolving five-year facility provided equally by The Royal Bank of Scotland and Barclays and a new £150m fully revolving five-year facility provided by Lloyds Bank to replace and extend their existing £100m bilateral facility Although signed in 2011, these new facilities did not become available for drawing until January 2012 and so, as at the 2011 balance sheet date, the £375m facility was still in place In January 2012, the £375m facility was part-cancelled and now consists of a £150m fully revolving facility

The debt profiles of the bank facilities as at 31 December 2011 and the pro-forma refinanced position are both provided above

We believe that the pricing on these two new facilities is at good and sensible levels in the current market, which became considerably more difficult in the last quarter of 2011 In both cases we have agreed a "ratchet" of margin pricing based on the amount drawn at the lower end of the range of LTV ratios where we tend to operate most of the time, margins of 185bp and 160bp, respectively were agreed for the two facilities while we expect to pay margins between 160bp and 215bp through the life of these loans Should we need to draw the full amounts and in a situation where property security values were also to fall substantially from current levels, the margins in both facilities could be up to 250bp

We are not seeking to renew the small £32 5m unsecured facility expiring in June 2012 which was originally arranged in connection with the loan notes offered at the time of the LMS merger The remaining loan notes were repaid in January 2012

In order to mitigate the effect of an increase in facility margins, we have taken steps to reduce the weighted average cost of our interest rate swaps In January 2012, when the higher margins started to take effect, we broke two interest rate swaps with a principal amount of £130m and a weighted average rate of about 5 0%, excluding margin which were due to expire in March 2013 The cost of breaking these swaps was £6 3m, a small discount to the additional interest charge that we would have incurred through the remaining life of the swaps At the same time, we took out a new £70m swap to April 2019 at a rate of just under 2 0%, excluding margin The impact of the new facility margins and swap rates is shown in the table on page 55

Cash proceeds from the sales of investment properties during 2011 were £131 5m, which almost matched the £134 2m outflow incurred on capital expenditure and property acquisitions Cash generated from operations after payment of the dividend totalled £21 8m for the year leading to an overall reduction in bank and other loans

Taking account of amortisation of arrangement fees and other adjustments the Group s net debt fell slightly to £864 5m at December 2011 compared to £887 8m a year earlier After allowing for the cash raised from the issue of the convertible bond in June, bank loans were repaid by a net amount of £186 6m during the year compared to a net drawing of £158 8m in 2010

Supported by the rise in portfolio values, gearing has fallen again in 2011 and the Group's overall LTV ratio after allowing for unamortised loan arrangement costs, fell from 35 7% at 31 December 2010 to 32 0% at 31 December 2011 Balance sheet gearing fell from 59 4% to 50 4% over the same period As noted above, our finance costs have increased in the year and, accordingly the Group's overall interest cover ratio for the year fell a little to 307%, after capitalisation of interest, or 291% excluding capitalised interest, compared to 328% in 2010 These levels of LTV ratio and interest cover provide very substantial headroom for our bank facilities

The weighted average length of unexpired debt facilities at 31 December 2011 was 4 4 years but, with the new facilities that became effective in January 2012, the pro forma figure rises to 5 2 years, which is the same as at 31 December 2010

Finance review

The issue of the convertible bonds in June 2011 increased available headroom under bank facilities but also raised the proportion of debt that is at fixed rates, at 31 December 2011, the percentage of debt at fixed rates was 98% though this has fallen to 90% in January 2012 on the termination of the old swaps and the arrangement of the new swap noted above. This level of fixed rates provides us with considerable protection against movements in interest rates but remains a little above our target range. As we invest further in the portfolio over the medium term, we expect this proportion to fall back under 85%.

As a result of the higher level of fixed rates and the increased margins that we pay on recently renewed bank facilities, the weighted average cost of debt, including the secured bond, increased from 4.34% at December 2010 to 4.91% at December 2011, inclusive of the non-cash element of the convertible bond, or 4.65% if the latter is excluded.

The bond issue increased the level of committed bank facilities available for drawing at 31 December 2011 to £469m compared with £245m the previous year, added to which there was an additional £589m of uncharged property in December 2011, the comparative figure at December 2010 was £484m. The low LTV ratio at December 2011 means that the Group's bank covenants, both for LTV ratio and interest cover, have significant headroom and we estimate that property values could fall by around 50% before there was an LTV ratio breach under any of the facilities.

Dividend

Our dividend remains well covered and, as a result, the Board has been able to recommend an 8.1% increase in the proposed final dividend to 21.90p per share. Of the final dividend, 18.10p will be paid as a PID with the balance of 3.80p as a conventional dividend. This will bring the total dividend for the year to 31.35p per share, an increase of 2.35p or 8.1% over 2010. We will again offer a scrip dividend alternative as this has proved popular with shareholders with around 17% opting for shares rather than cash so far since it was introduced.

"We have been able to increase the dividend by 8.1% to 31.35p per share for the full year, a level at which it remains well covered by earnings."

Damian Wisniewski
Finance Director

Net debt

	2011 £m	2010 £m
Cash	**(3 5)**	(7 2)
Bank overdraft	**–**	5 6
Revolving bank facilities	**477.0**	661 0
Unsecured loan	**31.4**	31 4
Loan notes	**1 1**	1 1
Secured bonds 2026	**175 0**	175 0
Fair value and issue costs	**17 2**	17 9
Unsecured convertible bond 2016	**175 0**	–
Issue costs, equity component and unwinding of discount	**(12 6)**	–
Leasehold liabilities	**7 4**	7 4
Bank loan arrangement costs	**(3 5)**	(4 4)
Net debt	**864 5**	887 8

Gearing and interest ratio cover

	2011 %	2010 %
Balance sheet gearing	**50 4**	59 4
Loan to value ratio	**32 0**	35 7
Interest cover ratio	**307**	328

Hedging and borrowing costs

	2011 Proforma £m[1]	201 £m	2010 £m
Bank loans			
Floating rate	**15 4**	15 4	259 4
Capped	**–**	–	10 0
Swapped	**493 0**	493 0	423 0
	508 4	508 4	692 4
Floating rate loan notes	**1 1**	1 1	1 1
Fixed rate secured bonds 2026	**175 0**	175 0	175 0
Fixed rate unsecured bonds 2016	**175 0**	175 0	–
Total	**859 5**	859 5	868 5
Hedged and fixed rate (%)	**90**	98	70
Weighted average cost of debt (%)[2]	**4 37**	4 65	4 34
Weighted average cost of debt (%)[3]	**4 62**	4 91	4 34
Weighted average maturity of facilities (years)	**5 2**	4 4	5 2
Weighted average maturity of swaps (years)	**6 5**	5 0	5 8

[1] After new facilities, extensions and swap arrangements entered into in January 2012

[2] Convertible bonds at 2 75%

[3] Convertible bonds on IFRS basis

Sustainability
Responsible development

Derwent London sustainability milestones

2001

Environmental policy introduced

2002

First displacement air-conditioning installation Davidson Building

2003

2004

First DALI (Digital Addressable Lighting Interface) lighting system installation Johnson Building

2005

Energy reduction targets set

2006

Interview with Paul Williams Executive Director

"Whilst many businesses may see sustainability as a series of tick-boxes, at Derwent London we have a more fundamental approach, championing refurbishment over redevelopment wherever practical"

I was lucky enough to be here when Derwent London was founded, over 25 years ago, and am proud to say that we have been a responsible developer from the beginning. The evolution of our Environmental Policy, which was introduced in 2001, into a Sustainability Policy in 2008 continues to shape the business, most notably our building design and the ambition of our developments.

Our intent has always been to create interesting buildings that will remain relevant twenty or more years from now. Sustainability is a fundamental component of that intention, not least because efficiency drives both carbon and financial savings. Our approach of taking "difficult" buildings and reimagining them to create desirable buildings is affectionately known as "doing a Derwent". Making refurbishments work rather than redeveloping is good for the bottom line and for the environment. One of our proudest achievements, the completion of the Angel Building in 2010, reflects this, the reinvention of an existing building that created value for our shareholders and incorporates a number of sustainability features (more detail in the case study opposite). The building has won a number of architectural prizes, as well as being shortlisted for the RIBA Stirling prize in 2011.

The current generation of decision makers, be they heads of local community groups, planning officials, or members of Local Government, have been brought up with sustainability and expect businesses to embrace it. Whilst many businesses may see sustainability as a series of tick-boxes, at Derwent London we have a more fundamental approach, championing refurbishment over redevelopment wherever practical. We believe our concept of the White Collar Factory will help influence the next generation of office buildings. Derwent London aims to be best in class for customer service and that includes engaging with tenants in detail on how to run efficient buildings that enhance the community.

London is an inspirational place to be, full of creative people from every imaginable background, and I can think of few things more exciting than creating buildings that change the face of London.

Paul Williams

"Our intent has always been to create interesting buildings that will remain relevant twenty or more years from now. Sustainability is a fundamental component of that intent"

Previous spread:
Tea Building E1

2007	2008	2009	2010	2011	Beyond 2012
Key performance indicator for BREEAM ratings introduced	Environmental policy expanded to capture social responsibility First BREEAM Excellent Dorset Square First renewable energy installation solar water heating at Portobello Dock	First green roof installation Horseferry House 1 Fitzrovia	2 The Angel Building	Launch work experience programme in Fitzrovia Employee handbook and intranet site launched	– Attain first BREEAM Outstanding – Continued reduction in energy and carbon intensity – "White Collar Factory" 3 White Collar Factory

2009 – ongoing
Fitzrovia

As a major landowner with over 1 5m sq ft of property in Fitzrovia, we are committed to making this area a vibrant place for the community and businesses We were a founding member of the Fitzrovia Partnership in 2009

This business-led initiative seeks to bring together local businesses and work with local amenity groups and the statutory authorities to add value and deliver a tangible improvement to the management of Fitzrovia, and help preserve and enhance a vibrant commercial and residential district

We continue to build relationships with community groups and have been donating our time and expertise as well as financial support for the past three years

2010
The Angel Building

The development of the Angel Building completed in 2010 received wide acclaim and is now fully let We received awards from such esteemed organisations as RIBA British Council for Offices the British Construction Industry and New London Architecture

Key sustainability features include

- "Excellent" BREEAM Rating,
- EPC Rating "B",
- two biomass boilers,
- rainwater harvesting,
- retention of existing building's concrete frame and superstructure saved an estimated 300 000 tonnes of CO_2,
- high performance façade
- displacement ventilation and
- efficient lighting and controls

Beyond 2012
White Collar Factory

We are pursuing a fresh idea for office space a new type of building with lessons learnt from the best warehouses and factories – but one that is designed for the 21st century office worker rather than the 20th century blue-collar worker We call it the "White Collar Factory"

Typically, the White Collar Factory is an office building that has big flexible floor plates, large opening windows, generous volumes, large floor to ceiling height and robust concrete construction It is light open and connected because its dimensions are being defined by the potential of natural light and ventilation It is smart because it is simple and does not rely on air conditioning and other technological add-ons that too often confuse choice with excess

Our forthcoming development at City Road Estate for which we gained planning permission in 2011 (see page 41) will incorporate the White Collar factory concept

Sustainability
Managing sustainability

Derwent London is committed to sustainability because we believe it is everyone's responsibility and because it gives our business an edge We aim to create interesting, environmentally sustainable buildings with best in class customer service We encourage all our employees, customers, suppliers and communities to join us in changing the face of London – meeting current needs without compromising those of future generations

Our approach to sustainability underpins our design, construction, and building management to attract and retain tenants and meet planning and community needs We provide a rewarding work environment to attract and retain high calibre employees We also seek opportunities to influence the sector's approach to sustainability We use our expertise and experience to communicate our beliefs at business events and lead by example in our developments, such as the Angel Building

When developing and refurbishing, we aim to minimise carbon emissions and wastage, using recycled materials and prioritising land use to the best effect We are committed to refurbishing existing buildings as a preferred development option A study undertaken at the Buckley Building in 2011 concluded there was 70% less embodied energy consumed during refurbishment than that of a standard office building We install a wide range of energy and water-efficient technologies to optimise building efficiency

Our approach to building management is to work in partnership with our suppliers and employees to deliver the best value to our tenants and the communities in which we operate Our efforts help us manage our exposure to the CRC Energy Efficiency Scheme (CRC) in addition to conserving resources

We continue to be listed in the FTSE4Good and participate in the Carbon Disclosure Project

2011 Awards and recognition

We received widespread recognition in 2011, reflecting the quality of our reporting and the culture of our business, together with our successes with "green" buildings

- **Management Today** Britain's Most Admired Companies 2011 5th place overall (out of 238) and 1st in property category in 2011 and 2010
- **Estates Gazette** 2011 Property Company of the Year – Offices
- **RIBA Stirling Prize** Angel Building shortlisted
- **European Public Real Estate Association** 2010 Annual Report Silver Award

Our key sustainability commitments are outlined in our Sustainability Policy We aim to improve sustainability across all areas of business through strategic targets, sustainability frameworks and internal processes to allow closer monitoring of performance against our targets and policy objectives This enables us to be more targeted in our improvements and more transparent in our reporting

Our sustainability strategy and performance is overseen by Paul Williams, executive Director, supported by Tim Kite, Company Secretary We manage sustainability closely through quarterly meetings with our external consultants, Jones Lang LaSalle and Arup, and by assigning specific responsibilities to key individuals within our business

Our strategic sustainability framework

Our 2011 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 2011

Sustainability Performance summary

"Performance against targets this year is evidence of the positive work being undertaken, and the stretching nature of the targets set"
Arup

"The continuous evolution of targets into standard practice demonstrates that Derwent London's sustainability policy is changing how the company does business"
Jones Lang LaSalle

We continue to set ourselves challenging targets each year to meet our policy commitments. We set targets in areas where we have either operational control or influence through occupier and contractor engagement. References to our managed portfolio are to the 53 multi-let properties in our portfolio that we manage and which represent 90% of the whole portfolio by floor area. The remaining buildings are either single-let or are not managed by Derwent London.

Performance is measured against 30 targets. These cover environmental, supplier, customer and community targets. We have performed well in 2011, as shown in the adjacent chart.

	Achieved/partially achieved
Environment	
14 achieved, 1 partially achieved, 4 not achieved	79%
Suppliers	
1 achieved, 1 partially achieved	100%
Customers	
4 achieved, 1 not achieved	80%
Communities	
3 achieved, 1 not achieved	75%

2011 highlights

Environment

22%
reduction in water usage per square metre across managed portfolio

6%
reduction in electricity usage per square metre across managed portfolio

13%
reduction in gas usage per square metre across managed portfolio

48%
average recycling rate at managed properties

Suppliers

24 days
average invoice payment period

Customers

Occupier satisfaction survey findings

83%
stated occupier satisfaction was "excellent" or "good"

81%
were "very satisfied" or "satisfied" with their relationship with Derwent London

Communities

3.5%
increase in voluntary community investment since 2010 to £366,079

Employees

6%
employee turnover compared to national average of 12.5%

Sustainability
Resource efficiency

We all have a duty to minimise pollution and work in an environmentally responsible manner By focusing on resource efficiency and carbon reduction, and continuing to prioritise the regeneration of existing buildings, we will mitigate our climate change impact We also engage with our tenants to improve the environmental performance of our managed assets

Carbon/Energy

For the last three years, we have focused on reviewing energy usage at selected office properties From this we have identified actions that can be implemented across the portfolio to reduce energy consumption – a "bottom up" approach

In 2011, we began our roll-out of smart metering to improve the granularity and accuracy of energy data We continue to implement an energy management strategy at our managed properties, focusing on introducing controls to reduce energy consumption before addressing more capital-intensive options

We work closely with our tenants to help improve the overall resource efficiency performance of our managed portfolio, for example, we are running a carbon reduction competition among tenants at the Johnson Building, awarding a trophy twice a year to the tenant achieving the greatest reduction in electricity use, and we have developed Green Travel Plans for 100% of our managed properties to encourage more sustainable modes of transport

As a result of our initiatives, energy intensity across the portfolio has reduced by 13% this year from 104 93kWh/m² in 2010 to 91 31kWh/m² in 2011 Carbon intensity across the portfolio also reduced from 0 029 tonnes CO_2e/m^2 in 2010 to 0 024 tonnes CO_2e/m^2 in 2011

In 2012, we have set ourselves overall portfolio energy and carbon reduction targets on an intensity basis for the first time We will aim to achieve these targets by continuing our "bottom-up" approach of reviewing individual properties to identify opportunities for improvement that can be applied throughout the managed portfolio

On our development projects, we continue to target BREEAM and Energy Performance Certificate (EPC) ratings during design In 2011 we undertook our first study of embodied energy at one of our refurbishment projects, demonstrating that our approach used approximately 70% less carbon than a new development of a standard office building In 2012 we will expand this, adopting a consistent approach across our development portfolio

Case study

Green Tea
Refurbishment of the Tea Building
In 2011 the Tea Building contributed 7% of the carbon emissions in the managed portfolio Monitoring at the Tea Building identified energy efficiency opportunities A phased refurbishment is therefore being undertaken to improve the performance of the building Key aspects of the refurbishment include double-glazed windows, high efficiency lighting with sensor control, roof insulation and high efficiency rooftop plant with thermal loop to allow energy sharing throughout the building space This is expected to result in the following performance improvements

– Improve energy usage efficiency by 50%

– Move EPC Rating from 'F' to 'B/C'

13%

energy intensity reduction

17%

carbon intensity reduction

2012 targets and future commitments

Target / future commitment	Delivery
Reduce managed portfolio energy usage (kWh/m²) by 5% compared to 2011	2012
Introduce voluntary Display Energy Certificates at a number of buildings including the Johnson Building	2012
Reduce managed portfolio building-related carbon emissions (tonnes CO_2e/m²) by 3% compared to 2011	2012
Report on embodied energy for key development projects over 5,000m²	2012

Sustainability
Resource efficiency

Water

Reducing water consumption in our portfolio remains a priority and we continue to implement measures to achieve this. These include:

- Rainwater harvesting at the Angel Building is being used for the ground and first floor toilets. In 2012, we will quantify this supply in order to report the percentage of water use from this non-mains source.
- At the Johnson Building, 1 Oliver's Yard and Holden House we changed the toilet flushes to 'turbo flushes' and added sensor taps to reduce water use.

As a result of these and other initiatives, our water usage has reduced by 22% this year from 0.59m³/m² in 2010 to 0.47m³/m in 2011.

We will continue to focus on water reduction in 2012, and look to increase the proportion of rainwater and greywater use within our new developments.

22%

reduction in water usage intensity

2012 targets and future commitments

Target / future commitment	Delivery
Maintain portfolio mains water consumption below 0.5m³/m²	2012
Report percentage of water usage from rainwater harvesting	2012
All projects over 5,000m² to be designed to include water saving systems such as rainwater or greywater harvesting	2012
New projects to be designed to achieve mains water usage of better than 0.55m³/m²	2012

Waste

The most significant achievement in 2011 was the diversion of all of our residual waste from landfill to incineration with energy recovery thereby reducing our environmental impact and future costs associated with increasing landfill tax

Whilst our properties are under development we have to date targeted a high landfill diversion rate of 90% Waste is monitored during demolition and construction and reported at completion for all developments in excess of 5 000m^2 As we did not complete any such developments in 2011 no data is available for this year

We continue to review the quality of our data reporting regarding waste management and have implemented measures to improve its accuracy further this year

Our waste recycling rate in 2011 was 48%, compared to 47% in 2010

In 2012, our focus will be on improving recycling rates in our multi-let buildings and maintaining a high diversion rate from landfill for our developments

100%

of waste diverted from landfill

2012 targets and future commitments

Target / future commitment	Delivery
Continue to meet zero managed office waste to landfill	2012
Achieve a minimum of 55% recycling rate in all properties for which Derwent London has control over waste management	2012
Projects to divert a minimum of 95% of demolition and construction waste from landfill	2012
Design new projects to include a minimum 20% recycled materials by value	2012

Sustainability Stakeholders

Our key stakeholders include our customers, suppliers, local communities and employees Working with key stakeholders on our development and property management activities helps maximise shareholder value Developing stable, trusting relationships is therefore a core element of our sustainability strategy

Suppliers

We have developed long term relationships with our key suppliers, which benefit the sustainability performance of our buildings Open dialogue and a cooperative environment ensure we are all working towards the same objectives Highlights from 2011 include

- Our average invoice payment period was 24 days, 15% faster than our target of 28 days Derwent London considers average payment within 28 days a minimum business standard rather than a stretching target
- Engagement with key suppliers to discuss sustainability requirements Based on the feedback from this we are considering sustainability clauses to include in contracts

Supplier information

Year	2008	2009	2010	2011
Average payment period (days)	24	21	23	24
Number of suppliers engaged on sustainability issues	–	8	78[1]	4

[1] In 2010 a supplier survey was conducted to better understand our supply chain management and risk.

2012 targets and future commitments

Target / future commitment	Delivery
Agree a schedule for implementation of key sustainable standards with suppliers	2012
Implement key sustainability standards with all relevant suppliers	2012/2013

24 days

average invoice payment period

Customers

We actively engage with our tenants to ensure buildings are operated efficiently and we deliver excellent service. Highlights from 2011 include

- Measured performance through a customer benchmarking exercise, with excellent scores for customer service
- Meetings with tenants ahead of service charge budget announcements to minimise subsequent disruption are now established as standard practice
- Zero RIDDORs at our managed buildings
- Introduced the rotation of building managers to share best practice

83%

stated occupier satisfaction was "excellent" or "good"

Case study

Occupier satisfaction survey

In 2011, we conducted an extensive occupier satisfaction survey at 13 buildings, following a successful pilot at one building in 2010. Over 80 interviews took place with our tenants and key highlights from the findings include

- **91%** scored the leasing process as "excellent" or "good"
- **83%** said their occupier satisfaction was "excellent" or "good"
- **81%** said they were "very satisfied" or "satisfied" with their relationship with Derwent London
- **81%** said communication with building management was "excellent" or "good"
- **76%** of occupiers would be "very likely" or "likely" to recommend Derwent London

2012 targets and future commitments

Target / future commitment	Delivery
Benchmark Derwent London's service charge communication against best practice	2012
All tenant facing staff to undergo enhanced customer service training	2012
Roll out Environmental Working Groups to three more major buildings	2012
Revise service charge communication practices based on findings from benchmarking exercise	2013

Sustainability Stakeholders

Communities

The communities in which we operate are becoming more vocal and knowledgeable about development activity As a result it becomes ever more important that we maintain our high standards and willingness to engage with stakeholders We are committed to having a positive impact on the communities in which we operate and take part in voluntary schemes such as the Considerate Constructors Scheme to monitor our performance We continue to invest our time, experience, and financial resources to remain a considerate and engaged business

Highlights from 2011 include

- Angel Building shortlisted for RIBA Stirling Prize
- 12 students from The St Marylebone School in Fitzrovia gained business and presentation experience following a work experience programme This successful programme will be repeated in 2012 as part of our continued engagement and commitment to Fitzrovia
- Voluntary community investment totalled £366,079, an increase of 3 5% on 2010
- 35 5 out of 40 scored in Considerate Constructors Scheme at Victory House
- Zero RIDDORs on our development sites

3.5%

increase in voluntary community investment, to £0 4m

Case study

Victory House CCS

The Victory House refurbishment created a high quality mixed-use development in central London The Considerate Constructors Scheme (CCS) helps us quantify both community impact during development and environmental management Victory House scored an excellent 35 5 out of 40, achieving compliance across all eight areas assessed and exceptional ratings in several

Examples of good practice cited by the CCS assessor included

- Use of local labour and suppliers
- Use of sustainable timber and re-use of materials
- Environmental targets set and carbon emissions recorded

2012 targets and future commitments

Target / future commitment	Delivery
Analyse community investment activities to date	2012
Develop and implement a community investment strategy for 2012 and beyond, aligned to development activities and material impacts	2012
Commission, scope and plan an evaluation of the socio-economic outcomes of a Derwent London project	2012
Evaluate the socio-economic impact of a Derwent London project	2013
Communicate use and embed findings of the socio-economic evaluation in future developments	2014

Employees

Attracting and retaining talented employees is important to successful delivery of our sustainability commitments. We continue to provide training opportunities to support employee development and strive to provide a stimulating and rewarding working environment.

Highlights from 2011 include:

- Employee handbook and intranet site developed providing better structure to internal human resource management
- Low employee turnover at 6% compared with the 12.5% national turnover rate for UK companies
- Spent £800 per employee on training, meeting 41 training needs in 2011
- No near-misses or RIDDORs involving Derwent London employees

Case study

Employee handbook

In 2011, we formalised our internal communications in an employee handbook, which brought better structure to our previously more informal human resource communications. This provides clearer information for employees and signposts important information. An intranet site has been created to give employees instant access to their handbook and provides an effective launch-pad for further communication improvements in 2012.

2012 targets and future commitments

Target / future commitment	Delivery
Identify where Derwent London can further impact employee well-being and attendance by improving the work environment	2012
Deliver 100% of staff training needs within six months of identification	2012

6%

employee turnover compared with 12.5%, the national rate for UK companies

1 Page Street
Victoria
SW1

1 Page Street is a vacant building that Derwent London purchased in 2011 The building has been pre-let to Burberry on a 20-year lease and is undergoing an extensive refurbishment to replace the façade and increase the

floor area to 127,000 sq ft The building is adjacent to Derwent London's Horseferry House, which is also let to Burberry

Type Offices
Size 127,000 sq ft (11,800m²)
Completion date 2013
Architect PLP Architecture

Board of Directors

John D Burns, 67
Chief Executive Officer

John 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 member of the strategic board of the New West End Company Limited. He is also a member of the Risk Committee.

Damian M.A Wisniewski, 50
Finance Director

Damian is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting. He joined the Board on 1 February 2010, prior to which he held senior finance roles at Trevena Asset Management, Wood Wharf Limited Partnership and Chelsfield plc. He is a member of the Risk Committee.

Robert A Rayne, 63
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 a Director of LMS Capital plc. He is also a non-executive Director of Weatherford International Inc. and was Chief Executive Officer of London Merchant Securities plc.

Simon P Silver, 61
Executive Director

Simon 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.

Paul M Williams, 51
Executive Director

Paul is a chartered surveyor and was appointed to the Board in 1998. His responsibilities include portfolio asset management, supervision of refurbishment and development projects and sustainability. He is a Director of The Paddington Waterside Partnership.

Nigel Q George, 48
Executive Director

A chartered surveyor, Nigel was appointed to the Board in 1998. He has responsibility for acquisitions and investment analysis. He is a Director of the Chancery Lane Association.

David G Silverman, 42
Executive Director

David joined the Board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals. He is Chairman of the Westminster Property Association.

John C Ivey, 70
Non-executive Deputy Chairman

A chartered accountant John was a non-executive 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

Robert A Farnes, 66
Senior Independent Director

Robert 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

Stuart A Corbyn, 66
Non-executive Director
(Senior Independent Director from 1 April 2012)

Stuart 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

June de Moller, 64
Non-executive Director

June joined the Board in February 2007 She is a non executive Director of Temple Bar Investment Trust plc 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 Archant Limited and London Merchant Securities plc She is a member of the Audit Risk Remuneration and Nominations Committees

Simon J Neathercoat, 63
Non-executive Director

Simon is a chartered accountant He joined the Board in 1999 and is a member of the Nominations Committee He is senior independent Director of Lombard Medical Technologies plc and a non-executive Director of Fairfield Energy PLC Previously, he was Managing Director of Dresdner Kleinwort Wasserstein He is a member of the Nominations Committee

Stephen G Young, 56
Non-executive Director

Stephen 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 chairs the Audit and Risk Committees whilst serving on the Remuneration and Nominations Committees

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 the 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

- 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

John D. Burns,
Chief Executive Officer

Damian M.A Wisniewski,
Finance Director
1 March 2012

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 2011

Corporate governance

Chairman's letter on governance matters

On behalf of the Board I am pleased to report on the Group's corporate governance performance in 2011

At Derwent London we are committed to running a business that is responsible honest transparent and accountable in the belief that good governance is not simply an exercise in compliance but underpins the success of the Company

This year the Company is formally subject to the provisions of the UK Corporate Governance Code (the "Code") for the first time Last year we complied with a number of the new provisions that this introduced in addition to the requirements of the Combined Code, the prevailing authority at that time For 2011, the Board believes that the Company has complied with the main and supporting principles of the Code except for provision A 3 1 regarding my independence on appointment and B 1 1 which addresses the independence of non-executive Directors These matters are discussed more fully in the following section

During the year there have been a number of consultations and initiatives aimed at improving corporate governance We have monitored these and adopted those which we considered would further improve the governance of our business I would highlight the following three developments

Diversity
We noted the publication of the Davies review "Women on Boards" and the ongoing debate that it engendered As a Board, we have always believed that the only qualification needed to be a Director of the Company is the appropriate talent – irrespective of background or gender We will continue to appoint and promote on this basis with due regard to the benefits of diversity identified in Lord Davies' report I am aware of the suggestion that we publish an aspirational target in respect of gender diversity but am reluctant to do so as we are in the process of recruiting two additional non-executive Directors over the next eighteen months and I would not want to suggest that positive discrimination might influence our selection

Board appraisals
In accordance with the new requirement under the Code, we have used an independent third party to facilitate the annual review of the effectiveness of the Board and its Committees

Risk management
In response to the renewed emphasis given to risk management in the Code, we reviewed our approach to this matter and concluded that a Risk Committee should be established as a new sub-committee of the Board Whilst overall responsibility for risk management remains with the Board, we consider that a separate committee focused on this one area can only further improve the relevant controls and systems The Committee was established in November under the chairmanship of Stephen Young and is served by June de Moller, John Burns and Damian Wisniewski

We noted the recent Government proposals on executive pay and remuneration reporting and will monitor the progress of the various requirements over the next year before assessing what impact, if any they have on the Company's remuneration policy and/or reporting We are, however, introducing "clawback" provisions that will apply in certain circumstances to the Group's bonus scheme and long-term incentive plan in anticipation of it becoming a requirement in the updated Code later in the year

The Annual General Meeting (AGM) is an important opportunity for members to meet and speak with the Directors of the Company and I encourage shareholders to attend the meeting on 16 May 2012

Robert A Rayne
Chairman

Directors' report

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 69 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 27 and 28 of the financial statements

The Board
At the start of the year, the Board consisted of

A non-executive Chairman
Robert Rayne

Seven non-executive Directors
John Ivey
Robert Farnes
Stuart Corbyn
Stephen Young
June de Moller
Simon Neathercoat
Donald Newell

Six executive Directors
John Burns
Simon Silver
Damian Wisniewski
Nigel George
Paul Williams
David Silverman

Donald Newell retired at the AGM held in May 2011

As noted above, Robert Rayne John Ivey and Simon Neathercoat do not qualify to be deemed independent using the criteria set out in provision B 1 1 of the Code and the Company does not comply with Code provision A 3 1 which requires a new Chairman to be independent on appointment The Board has therefore specifically considered the independence of these three 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 he continues to make an important contribution as Chairman of the Board and the Directors therefore consider that his position remains entirely justified

Both John Ivey and Simon Neathercoat have served on the Board for more than nine years and are therefore not deemed independent The Board has considered their expertise and commitment and reviewed the performance of their duties during the year and remains satisfied that their independence is unimpaired and effectively exercised

On 31 March 2012 Robert Farnes' period of service as a non-executive Director will reach nine years The Board does not believe that an independent state of mind ceases on a particular date and has no current concerns about Robert's independence However, in accordance with best practice on 1 April 2012 he will hand over the chairmanship of the Remuneration Committee to June de Moller and be replaced by Stuart Corbyn as the Group's Senior Independent Director In addition, at the year end he will step down from both the Remuneration Committee and the Audit Committee

None of these Directors has any association with management that might compromise their independence and all four are standing for re-election at the Company's AGM on 16 May 2012

During the year, the Nominations Committee continued with the process of refreshment which was introduced in 2010 to address the independence issues that had been identified, through an orderly process of change An independent executive search agency has been appointed to assist with the recruitment of two new independent non-executive Directors over the next 18 months It is anticipated that both John Ivey and Simon Neathercoat will retire from the Board during the same period

In addition, the Directors considered the composition of the Board having particular regard to the recommendation made in Lord Davies' "Women on Boards" report The Board currently consists of 13 directors, one (8%) of whom is female The Board also took note of the gender diversity throughout the Company which showed that overall 45% of staff are female whilst at the executive level 37% of employees are female Taking all factors into account, the Directors continue to believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company to satisfy the requirements of good corporate governance

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 2012 Extra meetings will be arranged if necessary Additionally the executive Board, which consists of the executive Directors, met ten times in 2011 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 that operated throughout 2011 A Risk Committee, which is chaired by Stephen Young and served by June de Moller, John Burns and Damian Wisniewski, was established in November 2011

Remuneration Committee
At the start of the year the Committee comprised June de Moller, Simon Neathercoat, Stuart Corbyn Donald Newell and Stephen Young under the chairmanship of Robert Farnes Donald Newell left the Committee in May 2011 and Simon Neathercoat on 31 December 2011 It is responsible for establishing the Company's remuneration policy and individual remuneration packages for the executive Directors and selected other senior executives There were six meetings of the Committee in 2011 The report of the Remuneration Committee is set out on pages 86 to 95

Audit Committee
This Committee is currently chaired by Stephen Young who took over the role from Simon Neathercoat on 1 April 2011 and was served throughout the year by Stuart Corbyn, Robert Farnes and June de Moller Donald Newell served on the Committee until his retirement in May 2011 Simon Neathercoat stepped down from the Committee on 31 December 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 auditors The Committee met four times during 2011 The report of the Audit Committee is on page 97

Nominations Committee
At any point in time, this Committee consists of all of the non executive Directors except the Chairman under the chairmanship of Stuart Corbyn 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 2011 The report of the Nominations Committee is on page 96

Directors' report

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

	Full Board	Executive Board	Remuneration Committee	Audit Committee	Nominations Committee	Risk Committee
Number of meetings	6	10	6	4	3	1
Executive						
J D Burns	6	10	–	–	–	1
S P Silver	6	9	–	–	–	–
D M A Wisniewski	6	10	–	–	–	1
P M Williams	6	9	–	–	–	–
N Q George	6	10	–	–	–	–
D G Silverman	6	10	–	–	–	–
Non-executive						
R A Rayne	6	–	–	–	–	–
J C Ivey	6	–	–	–	1	–
S J Neathercoat	6	–	6	4	2	–
R A Farnes	6	–	6	4	3	–
S A Corbyn	6	–	6	4	3	–
D Newell (to May 2011)	2	–	2	2	–	–
J de Moller	5	–	6	4	2	1
S C Young	6	–	6	4	3	1

Performance evaluation

Having regard to the requirement of provision B 6 2 of the Code, the Board, for the first time, appointed an independent third party to facilitate the annual review of the effectiveness of the Board, its Committees and individual Directors

The review was initiated by all Directors completing an online questionnaire prepared by the third party which covered the processes and performance of the Board and its Committees together with a self-assessment questionnaire addressing the Director s own performance and contribution

The responses were externally summarised 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 Senior Independent Director

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 However in accordance with Provision B 7 1 of the Code all Directors are subject to annual re-election and 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 72 and 73

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

- he resigns or offers to resign and the Board resolve to accept such offer,
- his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number
- he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated,
- 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
- he becomes bankrupt or enters into an agreement with his creditors generally,
- he is prohibited by law from being a Director,
- he ceases to be a Director by virtue of the Companies Acts or
- 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

Directors' report

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, 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	
At 31 December	2011	2010	2011	2010
R A Rayne	4,350,017	4,350,017	157,345	157 345
J C Ivey	79,072	79 072	–	–
J D Burns	737,127	718,268	231 800	248,875
S P Silver	346,465	340,687	198 050	212,075
N Q George	20 348	30,348	123,230	130,155
P M Williams	35 168	35,168	123 230	130,155
D G Silverman	6,821	–	106,990	108,140
D M A Wisniewski	–	–	65,590	34,590
S J Neathercoat	8 000	8,000	–	–
R A Fairhead	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	1,000	1,000	–	–

There have been no changes in any of the Directors' interests between the year end and 1 March 2012

The Directors did not exercise any options during the year and no new options were granted to Directors under the Executive Share Option Scheme A conditional grant of 231,050 shares was made to Directors under the Performance Share Plan whilst 144,460 shares vested to the Directors from an earlier conditional award at a zero exercise price The remaining 158,065 shares of this award lapsed

Other than as disclosed in note 40, the Directors have no interest in any material contracts of the Company

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 Stuart Corbyn, the Senior Independent Director, who takes over the role from Robert Fairhead on 1 April 2012

Risk management and internal control
The principal risks and uncertainties facing the Group in 2012 together with the controls and mitigating factors are set out on pages 25 to 27. The systems that control the risks form the Group's system of internal control. The key elements of the Group's internal 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 1 March 2012, 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 30 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.

Directors' report

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

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 2011 to allot relevant securities up to a nominal amount of £1,686,672 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 £1,694,567 and (ii) comprising equity securities up to a nominal amount of £3,389,134 (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 £254,185 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 10 167,401 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 80, the Company has been notified of the following interests in the issued ordinary share capital as at 1 March 2012

	Number of shares	Percentage of issued share capital
Withers Trust Corporation	6,217,444	6 12
Withers Trust Corporation Ltd and James McCarthy	5,548 731	5 46
Cohen & Steers Capital Management Inc	5,231 757	5 15
Ameriprise Financial Inc	5,132,584	5 05
BlackRock Investment Management (UK) Ltd	5 035,211	4 95
Standard Life Investments	4,284 390	4 22
Third Avenue Management LLC	3,944,764	3 88
Lady Jane Rayne	3,593,838	3 54
Legal & General Investment Management	3,482,391	3 43

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

Other matters

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 2011, the average payment period was 24 days (2010 23 days)

Charitable donations
The Group made charitable donations of £0 1m during the year (2010 £0 1m)

Fixed assets
The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2011 resulting in a surplus of £181 7m, before deducting the lease incentive adjustment of £9 6m The freehold and leasehold investment properties are included in the Group balance sheet at a carrying value of £2,599 5m Further details are given in note 17 of the financial statements

Directors' report

Post balance sheet events
Details of post balance sheet events are given in note 38 of the financial statements

Going concern
Having considered the Group's latest rolling forecast for the next two years including in particular the cash flow borrowings and undrawn facilities and made due enquiries, the Directors have reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future Therefore, the Board continues to adopt the going concern basis in preparing the financial statements

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

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 auditors are unaware and that 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

Annual General Meeting
The notice of meeting contained in the circular to shareholders that accompanies the report and accounts includes four 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 £1,694,567, 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 £3,389,134, 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 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 16 August 2013

Resolution 20 is a special resolution, proposed annually, and will renew the Directors' power under Sections 570 and 573 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 and the scrip dividend scheme (where the scrip election is made after the declaration (but before payment) of a final dividend) as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale The resolution further empowers the Directors to allot or, in the case of treasury shares, sell shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £254,185, 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

Allotments made under the authorisation in paragraph B of resolution 19 would be limited to allotments by way of a rights issue only (subject to the right of the Board to impose necessary or appropriate limitations to deal with for example, fractional entitlements and regulatory matters)

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 16 August 2013

Resolution 21 is proposed as a special resolution to renew the authority under section 701 of the Companies Act 2006 which enables the Company to purchase its own shares This authority enables the Directors to act quickly, 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 authority will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier the close of business on 16 August 2013

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 1 March 2012 was 1,322,375 which represented 1 30% 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 1 March 2012 would represent 1 61% 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 special 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 shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and it is thought to be to the advantage of the shareholders as a whole 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

Timothy J Kite ACA
Company Secretary
1 March 2012

Report of the Remuneration Committee

Remuneration Committee

At the start of the year the Remuneration Committee consisted of Simon Neathercoat, Stuart Corbyn Donald Newell, June de Moller and Stephen Young under the chairmanship of Robert Farnes Donald Newell left the Committee in May 2011 when he retired and Simon Neathercoat stepped down on 31 December 2011 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

New Bridge Street (NBS) – 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, NBS determine entitlements under the bonus scheme and the extent of vesting of the conditional share awards and ensure that the measures used for both schemes are comparable and consistent NBS 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 who 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 in similar sized FTSE 350 companies The Committee also takes account of the pay and conditions throughout the Company and noted that the constituent parts of the employees' remuneration package which includes both an option and bonus scheme were similar to those of the Directors and that the average pay increase awarded for 2012 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,
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice, and
- to ensure that the Group's remuneration structure does not encourage management to adopt an unacceptable risk profile for the business

Elements of remuneration package

A full review of executive remuneration arrangements was last carried out by NBS during 2007 and a revised remuneration structure applied from 2008 After four years of operation, the Committee considered whether the structure should be reviewed during 2011 but concluded that as it continued to meet the objectives of the Committee and was broadly in line with best practice, no review was necessary The Committee will continue to monitor the need for a formal review of the remuneration strategy through 2012 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 2011, the Committee agreed a basic increase of approximately 3% for 2012 which took into account the excellent results that the management team continued to produce, the competitive nature of the market for top performing executives in the sector and the overall economic climate

In recognition of the increased experience and importance to the business of recently appointed directors, the Committee again followed its policy of awarding such Directors an extra salary increase in addition to the basic increase Accordingly, the Committee awarded an additional £25,000 increase to David Silverman and an additional £10,000 increase to Damian Wisniewski These extra increases continue to move these Directors' remuneration towards appropriate market benchmarks

Resultant salaries effective from 1 January 2012 (2011 equivalents in brackets) are John Burns £567,000 (£550,000) Simon Silver £486,000 (£472,000), Nigel George £361,000 (£350 000) Paul Williams £361 000 (£350 000) Damian Wisniewski £361 000 (£340,000) David Silverman £335,000 (£300 000)

The executive Directors receive a pension contribution worth 20% of base salary to a defined contribution scheme or a salary supplement in lieu of part or all 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 For 2011 the scheme offered a maximum bonus potential for John Burns and Simon Silver of 150% of salary and 125% of salary for the other executive Directors

Any bonus up to 100% of salary is paid in cash with any excess amount being compulsorily deferred in shares Half of these shares are 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 the Company prior to the share release date

Three quarters of the bonus is based equally on two annual financial measures namely net asset value (NAV) growth which is compared to the total return of properties in the IPD Central London Offices Total Return Index and total return (being NAV growth plus dividends) which is measured against that of other major real estate companies The final 25% is available for the Committee to award at its discretion Total return is one of the KPIs used to measure the Group's overall success and its use in calculating a significant part of the Directors' bonus ensures an alignment of interest between delivery of the Group's strategy and Directors' remuneration

Provision has been made for a bonus for 2011 of 90% (2010 87 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 shareholder return for the year and the other achievements outlined earlier in the report and accounts in particular the refinancing achieved in the year, the number of planning consents received the level of lettings and the well-controlled developments

c) Long-term incentives

The Group's Performance Share Plan (PSP) was established in 2004, with a number of changes approved by shareholders in 2008

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 2011, which has been consistent since the scheme was reviewed in 2008, was to limit awards to 175% of salary for John Burns and Simon Silver and 150% of salary for the other Directors It is the Committee s intention to continue this policy for 2012

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 Where an employee retires during the three-year vesting period their award will be adjusted in accordance with the scheme rules Performance targets for awards granted in 2011 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

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

- 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, both key measures of performance for the Group

- 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 plan rules

Details of outstanding share entitlements under the scheme along with associated performance conditions, are set out on page 91 in table 2

The following diagram illustrates the balance between fixed and variable pay achieved by both the remuneration structure for John Burns and Simon Silver and that for the rest of the executives at both target and maximum levels of performance

The target figures reflect the Committee's intention that, on average, the LTIP will deliver 60% of the maximum potential and the bonus scheme 50% of potential

Clawback provisions are being introduced to both the bonus scheme and the Performance Share Plan which will operate in certain cases of misstatement or misconduct

Shareholding guideline
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, 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 They include a provision 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 As part of the recruitment process, the remuneration of the non-executive Directors will be reviewed during 2012 to ensure that the fees are at an appropriate level 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 details of which are given in table 4 on page 94

The non executive Directors do not have service contracts and are appointed for three year terms which expire as follows Stuart Corbyn, 23 May 2012, June de Moller, 31 January 2013, Stephen Young, 9 July 2013 Simon Neathercoat, 28 February 2014, John Ivey, 12 December 2014, and Robert Farnes, 31 December 2014 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

2011	Salary and fees £000	Bonus – cash £000	Bonus – deferred shares £000	Benefits in kind £000	Sub total £000	Gains from equity settled schemes £000	Total £000	Pension and life assurance £000
Executive								
J D Burns	550	550	192	48	1,340	689	2,029	116
S P Silver	472	472	165	34	1,143	585	1,728	105
D M A Wisniewski	340	340	43	20	743	–	743	74
N Q George	350	350	44	18	762	354	1,116	80
P M Williams	350	350	44	20	764	354	1,118	80
D G Silverman	300	300	37	19	656	260	916	65
Non-executive								
R A Rayne	150	–	–	31	181	–	181	–
J C Ivey	58	–	–	–	58	–	58	–
S J Neathercoat	48	–	–	–	48	–	48	–
R A Farnes	58	–	–	–	58	–	58	–
S A Corbyn	52	–	–	–	52	–	52	–
J de Moller	47	–	–	–	47	–	47	–
D Newell	20	–	–	–	20	–	20	–
S G Young	51	–	–	–	51	–	51	–
	2,846	**2,362**	**525**	**190**	**5,923**	**2,242**	**8,165**	**520**

2010	Salary and fees £000	Bonus – cash £000	Bonus – deferred shares £000	Benefits in kind £000	Sub total £000	Gains from equity settled schemes £000	Total £000	Pension and life assurance £000
Executive								
J D Burns	525	525	164	46	1,260	377	1,637	111
S P Silver	450	450	141	26	1,067	110	1,177	101
C J Odom	26	–	–	1	27	235	262	7
N Q George	335	335	31	14	715	520	1,235	77
P M Williams	335	335	31	20	721	365	1,086	77
D G Silverman	275	275	26	16	592	104	696	60
D M A Wisniewski	289	289	27	18	623	–	623	62
Non-executive								
R A Rayne	150	–	–	31	181	825	1,006	–
J C Ivey	58	–	–	–	58	–	58	–
S J Neathercoat	49	–	–	–	49	–	49	–
R A Farnes	53	–	–	–	53	–	53	–
S A Corbyn	49	–	–	–	49	–	49	–
J de Moller	44	–	–	–	44	–	44	–
D Newell	44	–	–	–	44	–	44	–
S G Young	18	–	–	–	18	–	18	–
	2,700	**2,209**	**420**	**172**	**5,501**	**2,536**	**8,037**	**495**

Chris Odom served as a Director for one month in 2010 and Donald Newell retired in May 2011. Damian Wisniewski and Stephen Young joined the Board in February 2010 and August 2010 respectively. John Burns served as a non-executive Director of Berendsen plc until 24 September 2010 and received fees of £30,000 in that year. 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 2011 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
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
8 25	15/04/12	106 000	90,150	57,250	54 500	54,500	42,700	–	23,000	428,100
Interest as at 1 January 2010		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

Shares conditionally awarded during the year

Market price at award date £	Earliest vesting date									
16 43	01/04/14	58,550	50,250	–	31,950	31 950	27,350	31,000	12,750	243 800

Shares vested or lapsed during the year

Market price at award date £	Market price at date of vesting £									
11 57	18 22	(37,813)	(32 138)	–	(19 438)	(19,438)	(14,250)	–	(7,775)	(130 852)
11 57	18 06	–	–	(13,608)	–	–	–	–	–	(13,608)
11 57	Lapsed	(37 812)	(32,137)	(27,217)	(19 437)	(19,437)	(14,250)	–	(7 775)	(158 065)
Interest as at 31 December 2011		**231,800**	**198,050**	**57,250**	**123,230**	**123,230**	**100,240**	**65,590**	**50,390**	**949,780**

	31 December 2011	31 December 2010	1 January 2010
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1 08 years	1 30 years	1 76 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 2011 was £nil (2010 £nil) The weighted average market price at the date of vesting in 2011 was £18 20 (2010 £13 81)

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, and
- half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index

The Committee has discretion to reduce the extent of vesting in the event that it feels that performance against either measure of performance is inconsistent with underlying financial performance

The TSR comparator group for awards granted up to 2007 comprises the constituents, as at the date of grant, of the FTSE All-Share Real Estate Index For subsequent awards a defined comparator group of real estate companies has been used The comparator group for 2012 is likely to be the same as for 2011, 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 outperforming the median performing property by 5% per annum (subsequent awards)

The performance criteria in respect of the 2008 award were measured on 5 June 2011 and showed a vesting percentage of 50% The balance of the awards lapsed As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR and NAV performance reflected its underlying financial performance Having considered a range of key financial indicators, including profits, the Committee concluded that this was the case

Share option schemes

Details of the options held by Directors and employees under the Executive Share Option Scheme at 31 December 2011 are given in table 3 below Disclosure relating to the Employee Share Option Plan 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	C J Odom	N Q George	P M Williams	D G Silverman	Employees	Total
5 015	14/04/03	13/04/10	–	–	11,000	–	–	–	11,000
7 235	12/04/04	11/04/11	42,000	–	15,000	–	–	–	57,000
6 725	15/04/05	14/04/12	–	–	10,750	12 250	–	6,500	29 500
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 2010			42,000	26,000	57,250	34,750	26 250	46 000	232,250

No options were granted during 2010

Options exercised during 2010

Exercise Price £	Market price at date of exercise £							
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

No options were granted, exercised or lapsed during 2011

Outstanding at 31 December 2011	**–**	**–**	**–**	**–**	**6,750**	**11,500**	**18,250**

The weighted average exercise price of options exercised in 2011 was £nil (2010 £6 36) and the weighted average market price at the date of exercise was £nil (2010 £13 19)

Report of the Remuneration Committee

Table 3 continued

	31 December 2011	31 December 2010	1 January 2010
Number of shares			
Exercisable	18,250	18,250	218,000
Non-exercisable	–	–	14,250
Weighted average exercise price of share options			
Exercisable	£12 51	£12 51	£6 40
Non-exercisable	–	–	£13 63
Weighted average remaining contracted life of share options			
Exercisable	4 01 years	5 01 years	2 78 years
Non-exercisable	–	–	6 44 years

The exercise of options granted under the 1997 Executive Share Option Scheme is subject to a three-year performance criteria 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 outstanding 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	BA 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 2010		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

No options were granted, exercised or lapsed in 2011

Outstanding at 31 December 2011	**157,345**

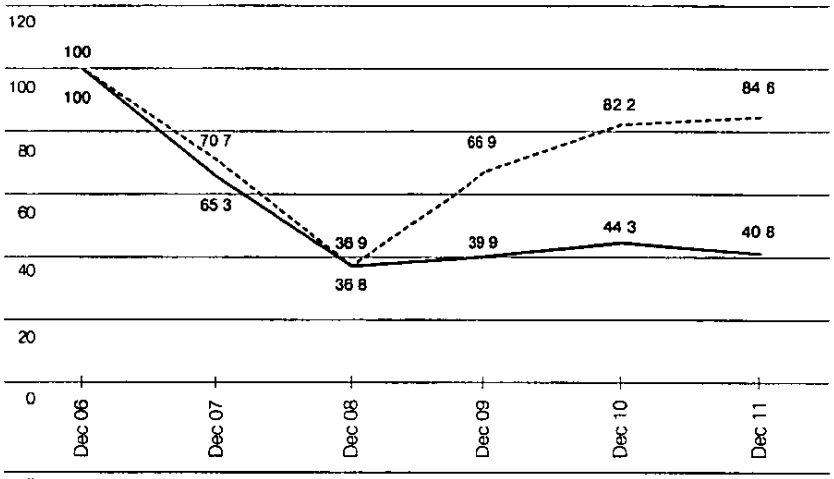
The weighted average exercise price of options exercised during 2011 was £nil (2010 £9 54) and the weighted average market price at the date of exercise £nil (2010 £13 20)

In respect of the options outstanding at 31 December 2011 in table 4 the weighted average exercise price is £9 48 (2010 £9 48) and the weighted average remaining contracted life is 2 5 years (2010 3 5 years)

The market price of the 5p ordinary shares at 31 December 2011 was £15 60 (2010 £15 61) During the year, they traded in a range between £14 00 and £18 80 (2010 £12 08 and £16 05)

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

Net investment total shareholder return £
2006-2011



Source Thomson Reuters

This graph shows the value, by the end of 2011, 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 Investment Trusts Index This index has been chosen by the Committee as it is considered the most appropriate benchmark 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

Robert A. Farnes
Chairman of the Remuneration Committee
1 March 2012

Report of the Nominations Committee

Throughout the year the Committee consisted of Simon Neathercoat, John Ivey Robert Farnes June de Moller and Stephen Young under the chairmanship of Stuart Corbyn Donald Newell was also a member of the Committee until his retirement in May 2011 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 meets at least once a year to plan and, if appropriate, 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 2011

Work of the Committee
During the year, the Committee has carried out the following

- reviewed the terms of reference for the Committee,
- co-ordinated the annual appraisal of the Board, its Committees and the Chairman,
- continued to review the size and membership of the Board Committees,
- continued to implement the policy of change and refreshment of the Board, introduced in 2010,
- considered what areas of experience additional non-executive Directors should possess in order to further strengthen the Board, and
- following a review of a number of independent executive search agencies, appointed one to assist with the recruitment of a further two non executive directors Having regard to the Board's policy towards diversification, the Committee ensured that the chosen agency subscribed to the "Voluntary Code of Conduct for Executive Search Firms" published in July 2011 The appointed agency provides no other services to the Group

Stuart A Corbyn
Chairman of the Nominations Committee
1 March 2012

Report of the Audit Committee

Membership
The Committee is chaired by Stephen Young who took over the role from Simon Neathercoat on 1 April 2011 Stuart Corbyn, Robert Farnes and June de Moller served on the Committee throughout the year and Donald Newell served until his retirement in May 2011 Simon Neathercoat stepped down from the Committee on 31 December 2011 All members are considered independent by the Company, having no day-to-day involvement with the Company Stephen Young is a qualified accountant 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 Auditors, 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 annual results,
- 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 This policy which prevents the Auditor being appointed for any non-audit work with fees above £25,000 without the Committee being consulted, helps protect the Auditor's independence and objectivity,
- after due consideration of the conduct of the audit 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,
- considered the procedures to be introduced to comply with the Bribery Act and recommended their approval to the Board,
- recommended a change in the Group's accounting policy for interest whereby from 1 January 2011 interest on development schemes would be capitalised,
- reviewed an internal report on the Group's control procedures over development expenditure and
- noted that the accounts for the Group's pension schemes had been audited and that no matters were raised

Stephen G Young
Chairman of the Audit Committee
1 March 2012

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 2011 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 2011 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 74, in relation to going concern,
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on Directors remuneration

Richard Kelly
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
1 March 2012

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

Spread overleaf
Johnson Building EC1

Group income statement

for the year ended 31 December 2011

	Note	2011 £m	2010 Restated £m
Gross property income		**125 5**	119 4
Other income		**2 0**	1 7
Total income	5	**127 5**	121 1
Property outgoings	6	**(9 8)**	(8 1)
Net property income		**117 7**	113 0
Administrative expenses	2	**(22 7)**	(20 9)
Revaluation surplus	2	**170 1**	298 1
Profit on disposal of investment properties	7	**36 1**	0 9
Profit from operations		**301 2**	391 1
Finance income	8	**1 1**	1 9
Finance costs	8	**(44 3)**	(39 8)
Movement in fair value of derivative financial instruments		**(26 5)**	(2 4)
Share of results of joint ventures	9	**1 5**	2 0
Profit before tax	10	**233 0**	352 8
Tax credit	15	**1 3**	–
Profit for the year		**234 3**	352 8
Attributable to			
Equity shareholders	32	**228 3**	343 6
Minority interest		**6 0**	9 2
Earnings per share	16	**225 20p**	339 68p
Diluted earnings per share	16	**217 67p**	337 47p

The notes on pages 107 to 139 form part of these financial statements

Statements of comprehensive income

for the year ended 31 December 2011

	Note	2011 £m	20 0 Restated £m
Group			
Profit for the year		**234 3**	352 8
Actuarial losses on defined benefit pension scheme	14	**(3 5)**	(0 4)
Revaluation surplus of owner-occupied property	17	**2 0**	3 6
Deferred tax on revaluation surplus	29	**0 7**	(1 0)
Foreign currency translation		**–**	0 2
Other comprehensive (expense)/income		**(0 8)**	2 4
Total comprehensive income relating to the year		**233 5**	355 2
Attributable to			
Equity shareholders		**227 5**	346 0
Minority interest		**6 0**	9 2
		233 5	355 2
Company			
Profit for the year		**90 3**	131 3
Actuarial losses on defined benefit pension scheme	14	**(3 5)**	(0 4)
Other comprehensive expense		**(3 5)**	(0 4)
Total comprehensive income relating to the year		**86 8**	130 9

The notes on pages 107 to 139 form part of these financial statements

Balance sheets

as at 31 December 2011

	Note	Group 2011 £m	2010 Restated £m	2009 Restated £m	Company 2011 £m	2010 £m
Non-current assets						
Investment property	2, 17	**2,444 9**	2,373 3	1,876 9	**–**	–
Property, plant and equipment	2, 18	**19 4**	16 7	13 1	**1 6**	0 7
Investments	19	**9 7**	8 4	6 4	**837 6**	712 7
Deferred tax	29	**–**	–	–	**3 3**	2 6
Pension scheme surplus	14	**–**	0 7	0 8	**–**	0 7
Other receivables	21	**55 4**	45 8	38 9	**–**	–
		2,529 4	2,444 9	1,936 1	**842 5**	716 7
Current assets						
Trading properties	22	**–**	–	1 0	**–**	–
Trade and other receivables	23	**45.0**	37 7	44 0	**546.4**	686 1
Corporation tax asset		**–**	–	–	**0.8**	2 1
Cash and cash equivalents	34	**3 5**	7 2	19 0	**–**	–
		48 5	44 9	64 0	**547.2**	688 2
Non-current assets held for sale	24	**137 5**	–	–	**–**	–
Total assets		**2,715 4**	2,489 8	2,000 1	**1,389 7**	1,404 9
Current liabilities						
Bank overdraft and loans	27	**32 5**	5 6	5 9	**32 5**	0 2
Trade and other payables	25	**70 9**	63 4	59 0	**164 4**	310 0
Corporation tax liability		**1 3**	3 3	5 4	**–**	–
Derivative financial instruments	27	**–**	–	1 6	**–**	–
Provisions	26	**1 6**	1 4	2 3	**0 5**	0 3
		106 3	73 7	74 2	**197 4**	310 5
Non-current liabilities						
Borrowings	27	**835 5**	889 4	733 9	**359 8**	347 5
Derivative financial instruments	27	**51 9**	25 4	21 4	**30 7**	10 2
Provisions	26	**0 5**	0 7	0 8	**0 5**	0 7
Pension scheme deficit	14	**1 5**	–	–	**1 5**	–
Deferred tax	29	**5 2**	5 9	5 9	**–**	–
		894 6	921 4	762 0	**392 5**	358 4
Total liabilities		**1,000 9**	995 1	836 2	**589 9**	668 9
Total net assets		**1,714 5**	1,494 7	1,163 9	**799 8**	736 0
Equity						
Share capital	30	**5 0**	5 0	5 0	**5 0**	5 0
Share premium	31	**162 9**	158 2	156 9	**162 9**	158 2
Other reserves	31	**936 6**	924 0	920 1	**600 5**	475 1
Retained earnings	31	**558 2**	361 6	45 2	**31 4**	97 7
Equity shareholders' funds		**1,662 7**	1,448 8	1 127 2	**799 8**	736 0
Minority interest		**51 8**	45 9	36 7	**–**	–
Total equity		**1,714 5**	1,494 7	1,163 9	**799 8**	736 0

The financial statements were approved by the Board of Directors and authorised for issue on 1 March 2012

John D Burns **Damian M.A Wisniewski**
Director **Director**

The notes on pages 107 to 139 form part of these financial statements

Statements of changes in equity

for the year ended 31 December 2011

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Group							
At 1 January 2011 (restated)	5 0	158 2	924 0	361 6	1,448 8	45 9	1,494 7
Total comprehensive income for the year	–	–	2 7	224 8	227 5	6 0	233 5
Share-based payments expense transferred to reserves	–	–	2 4	–	2 4	–	2 4
Transfer between reserves in respect of performance share plan	–	–	(1 9)	1 9	–	–	–
Issue of convertible bonds	–	–	9 4	–	9 4	–	9 4
Premium on issue of shares	–	4 7	–	–	4 7	–	4 7
Dividends paid	–	–	–	(30 1)	(30 1)	(0 1)	(30 2)
At 31 December 2011	**5 0**	**162 9**	**936 6**	**558 2**	**1,662 7**	**51 8**	**1,714 5**
At 1 January 2010 (as previously reported)	5 0	156 9	916 8	48 5	1 127 2	36 7	1,163 9
Restatement (see note 2)	–	–	3 3	(3 3)	–	–	–
At 1 January 2010 (restated)	5 0	156 9	920 1	45 2	1 127 2	36 7	1,163 9
Total comprehensive income for the year	–	–	2 8	343 2	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 paid	–	–	–	(27 9)	(27 9)	–	(27 9)
At 31 December 2010 (restated)	5 0	158 2	924 0	361 6	1 448 8	45 9	1,494 7
Company							
At 1 January 2011	5 0	158 2	475 1	97 7	736 0	–	736 0
Total comprehensive income for the year	–	–	–	86 8	86 8	–	86 8
Share-based payments expense transferred to reserves	–	–	2 4	–	2 4	–	2 4
Transfer between reserves in respect of performance share plan	–	–	(1 9)	1 9	–	–	–
Premium on issue of shares	–	4 7	–	–	4 7	–	4 7
Transfer between reserves[1]	–	–	124 9	(124 9)	–	–	–
Dividends paid	–	–	–	(30 1)	(30 1)	–	(30 1)
At 31 December 2011	**5 0**	**162 9**	**600 5**	**31 4**	**799 8**	**–**	**799 8**
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
Transfer between reserves in respect of performance share plan	–	–	(1 1)	1 1	–	–	–
Premium on issue of shares	–	1 3	–	–	1 3	–	1 3
Transfer between reserves	–	–	142 8	(142 8)	–	–	–
Dividends paid	–	–	–	(27 9)	(27 9)	–	(27 9)
At 31 December 2010	5 0	158 2	475 1	97 7	736 0	–	736 0

[1] £124 9m (2010: £142 8m) relating to the impairment of the Company's investment in LMS has been transferred to other reserves from retained earnings

The notes on pages 107 to 139 form part of these financial statements

Cash flow statements

for the year ended 31 December 2011

	Note	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Operating activities					
Cash received from tenants		**116 8**	117 1	**–**	–
Direct property expenses		**(13 1)**	(9 8)	**–**	–
Cash paid to and on behalf of employees		**(14 4)**	(13 7)	**(14 2)**	(12 9)
Other administrative expenses		**(5 2)**	(5 7)	**(5 0)**	(4 3)
Interest received		**–**	0 1	**–**	0 1
Interest paid	8	**(36 5)**	(38 8)	**(14 6)**	(24 0)
Other finance costs		**(1 8)**	(1 8)	**(1 5)**	(1 4)
Other income		**2 1**	2 1	**1.8**	2 0
Tax paid in respect of operating activities		**(0 7)**	(3 0)	**(0.5)**	(2 0)
Net cash from/(used in) operating activities		**47 2**	46 5	**(34 0)**	(42 5)
Investing activities					
Acquisition of investment properties		**(91 6)**	(148 0)	**–**	–
Capital expenditure on investment properties	8	**(42 6)**	(49 5)	**–**	–
Disposal of investment properties		**131 5**	8 5	**–**	–
Purchase of property, plant and equipment		**(0 2)**	(0 4)	**(0 2)**	(0 4)
Disposal of property plant and equipment		**–**	0 1	**–**	0 1
Distributions received from joint ventures		**0 3**	–	**–**	–
Advances to minority interest holder		**(0 8)**	(1 0)	**–**	–
Net cash used in investing activities		**(3 4)**	(190 3)	**(0 2)**	(0 3)
Financing activities					
Net proceeds of bond issue		**170 2**	–	**–**	–
Repayment of revolving bank loan		**(75 0)**	(94 2)	**(75 0)**	(94 2)
Drawdown of new revolving bank loan		**–**	60 0	**–**	60 0
Net movement in intercompany loans		**–**	–	**180 3**	14 7
Net movement in other revolving bank loans		**(179 1)**	193 0	**(113 0)**	94 0
Drawdown of non-revolving bank loans		**67 5**	0 3	**67 5**	0 3
Repayment of loan notes		**–**	(0 3)	**–**	(0 3)
Net proceeds of share issues	30	**–**	1 3	**–**	1 3
Dividends paid to minority interest holder		**(0 1)**	–	**–**	–
Dividends paid	33	**(25 4)**	(27 8)	**(25 4)**	(27 8)
Net cash (used in)/from financing activities		**(41 9)**	132 3	**34 4**	48 0
Increase/(decrease) in cash and cash equivalents in the year		**1 9**	(11 5)	**0 2**	5 2
Cash and cash equivalents at the beginning of the year		**1 6**	13 1	**(0 2)**	(5 4)
Cash and cash equivalents at the end of the year	34	**3 5**	1 6	**–**	(0 2)

The notes on pages 107 to 139 form part of these financial statements

Notes to the financial statements

for the year ended 31 December 2011

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, available for sale investments, and financial assets and liabilities held for trading The accounting policies used are consistent with those applied in the 2010 annual financial statements, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year and the presentational changes outlined below

2 Changes in accounting policies

The principal accounting policies are described in note 41 and are consistent with those applied in the year ended 31 December 2010 The new standards adopted during 2011 and the changes in accounting policies in 2011 are outlined below

New standards adopted during the year
The following standards, amendments and interpretations endorsed by the EU are effective for the first time for the Group's 31 December 2011 year end

IAS 24 Related Party Disclosures (revised),
IAS 32 Financial Instruments Presentation (amendment),
IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, and
Amendments arising from the 2010 annual improvements project

These had no material impact on the financial statements

Standards and interpretations in issue but not yet effective
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 The following standards 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

IFRS 7 Financial Instruments Disclosures (amendment),
IFRS 9 Financial Instruments
IFRS 12 Disclosure of Interests in Other Entities,
IFRS 13 Fair Value Measurement,
IAS 1 Presentation of Financial Statements (amendment),
IAS 12 Income Taxes (amendment),
IAS 19 Employee Benefits (amendment),
IAS 27 Separate Financial Statements, and
IAS 28 Investments in Associates and Joint Ventures

The following standards will affect the accounting for any future joint arrangements entered into by the Group

IFRS 10 Consolidated Financial Statements, and
IFRS 11 Joint Arrangements

Accounting policy changes
As a result of the issue of £175m convertible bonds in June 2011 the following accounting policy has been adopted by the Group

Convertible bonds
The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds The remainder of the proceeds is allocated to the conversion option This is recognised and included in shareholders equity net of income tax effects and is not subsequently re-measured Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue The portion relating to the equity component is charged directly against equity The issue costs apportioned to the liability are amortised over the life of the bond The issue costs apportioned to equity are not amortised

2 Changes in accounting policies (continued)

In addition, with effect from 1 January 2011, the Group has made the following changes to its accounting policies

Capitalisation of interest

In accordance with IAS 23, Borrowing Costs, interest has been capitalised on development projects The Group capitalises interest on development expenditure at the average cost of borrowings during the period In the year to 31 December 2011 the Group capitalised £2 2m of interest Had the Group adopted this policy from 1 January 2010, interest of £0 2m would have been capitalised during the year to 31 December 2010 Due to the immaterial amounts involved in 2010 and prior years, the comparative figures have not been restated for this accounting policy change

Owner-occupied property

The Group occupies a portion of one of its properties Due to an increased level of occupation and an uplift in the valuation, the Directors now consider the owner-occupied portion to be significant It has, therefore, been transferred to property, plant and equipment from investment property in accordance with IAS 40, Investment Property, and IAS 16, Property, Plant and Equipment This part of the building is now being depreciated in a similar way to other tangible fixed assets, over its remaining useful life with the depreciation included in administrative expenses The respective revaluation movement and associated deferred tax is recognised in other comprehensive income as opposed to the income statement and included within a revaluation reserve in equity rather than in retained earnings

As a result of this second accounting policy change, the following adjustments have been made to the comparative income statements, statements of comprehensive income, statements of changes in equity and the balance sheets

	Restated position		As previously reported		Impact	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Income statement						
Administrative expenses[1]	(20 9)	(17 6)	(20 8)	(17 5)	(0 1)	(0 1)
Revaluation surplus/(deficit)	298 1	(79 6)	301 6	(81 1)	(3 5)	1 5
Tax credit/(charge)	–	8 7	(1 0)	9 4	1 0	(0 7)
Profit/(loss) for the year	352 8	(24 8)	355 4	(25 5)	(2 6)	0 7
Other comprehensive income/(expense) in the year	2 4	(4 5)	(0 2)	(3 8)	2 6	(0 7)
Overall impact on total comprehensive income					–	–
Basic earnings/(loss) per share (p)	339 68	(25 89)	342 25	(26 59)	(2 57)	0 70
Diluted earnings/(loss) per share (p)	337 47	(25 89)	340 03	(26 59)	(2 56)	0 70

	Investment property £m	Property plant and equipment £m	Other reserves[3] £m	Retained earnings £m
Balance sheet				
1 January 2009				
As previously reported	2,085 6	1 2	923 4	95 0
Restated position	2,072 3	14 5	927 6	90 8
Impact	(13 3)	13 3	4 2	(4 2)
31 December 2009				
As previously reported	1,888 6	1 4	916 8	48 5
Restated position	1,876 9	13 1	920 1	45 2
Impact	(11 7)	11 7	3 3	(3 3)
31 December 2010				
As previously reported	2,388 5	1 5	918 1	367 5
Restated position	2,373 3	16 7	924 0	361 6
Impact	(15 2)	15 2	5 9	(5 9)

[1] Restatement due to the depreciation charge on the owner occupied portion of the investment property
[2] Represents the revaluation surplus net of deferred tax for the owner-occupied portion of the investment property previously reported in the income statement
[3] The difference represents the transfer from retained earnings to the accumulated revaluation reserve net of deferred tax of the owner-occupied portion of the investment property

3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance 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

The Group's significant accounting policies are stated in note 41 Not all of these 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 nature 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

Property portfolio valuation
The Group uses the valuation carried out by its independent valuers as the fair value of its property portfolio 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 outcome of an outstanding rent review is reasonably certain, rent is accrued from the rent review date based upon an estimated annual rent This estimate is derived from knowledge of market rents for comparable properties and is only accrued where the outcome is considered to be reasonably certain

Compliance with the real estate investment trust (REIT) taxation regime
The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains In order to retain REIT status, 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, Operating Segments 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 property portfolio includes investment property, owner-occupied property and assets held for sale and comprises 92% office buildings[1] by value The Directors consider that these properties have similar economic characteristics Therefore these individual properties have been aggregated into a single operating segment The remaining 8% 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 property value

No tenant accounts for more than 10% of gross property income in either 2011 or 2010, and no individual property accounts for more than 10% of the value of the property portfolio in either year

[1] Some office buildings have an ancillary element such as retail or residential

4 Segmental information (continued)

	Gross property income		Property portfolio* Carrying value		Fair value	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Office buildings	**115 5**	109 2	**2,397 1**	2,173 8	**2,439 3**	2,205 8
Other	**10.0**	10 2	**202 4**	214 7	**207 2**	220 3
	125.5	119 4	**2,599 5**	2,388 5	**2,646 5**	2,426 1

A reconciliation between the fair value and carrying value of the portfolio is set out in note 17

All of the Group's 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) and is excluded from this analysis 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		Property portfolio Carrying value		Fair value	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
West End central	**82 5**	82 6	**1,786 3**	1,662 6	**1,806 7**	1,679 7
West End borders	**9 2**	7 3	**220 3**	174 5	**231 4**	178 2
City borders	**27 5**	23 9	**482 9**	443 3	**493 7**	456 1
Provincial	**6 3**	5 6	**110 0**	108 1	**114 7**	112 1
	125 5	119 4	**2,599 5**	2,388 5	**2,646 5**	2,426 1

5 Income

	2011 £m	2010 £m
Rental income	**124 1**	118 8
Surrender premiums received	**2 4**	0 7
Write-off of associated rents previously recognised in advance	**(1 0)**	(0 1)
	1 4	0 6
Gross property income	**125 5**	119 4
Other income	**2 0**	1 7
	127 5	121 1

Included within rental income is £1 8m (2010 £1 0m) of income from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income 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) Additionally, rental income includes £8 8m (2010 £5 4m) relating to rents recognised in advance of the cash receipts

Other income 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 It also includes £0 2m (2010 £nil) of development income which represents the finalisation of the profit share earned by the Group from the project management of the construction and letting of a property on behalf of a third party

6 Property outgoings

	2011 £m	2010 £m
Ground rents	**0 3**	0 3
Reverse surrender premiums	**1 9**	0 2
Other property costs	**7 6**	7 6
	9 8	8 1

Property outgoings include £0 2m (2010 £0 1m) of costs relating to properties which produced no income during the year

7 Profit on disposal of investment property

	2011 £m	20 0 £m
Gross disposal proceeds	132 5	1 1
Costs of disposal	(1 2)	–
Net disposal proceeds	131 3	1 1
Carrying value	(95 0)	(0 2)
Adjustment for rents recognised in advance	(0 2)	–
	36 1	0 9

8 Finance income and costs

	2011 £m	2010 £m
Finance income		
Return on pension plan assets	0.8	0 8
Other	0 3	1 1
Total finance income	1 1	1 9
Finance costs		
Bank loans and overdraft	27 0	25 4
Non-utilisation fees	1 9	1 4
Secured bonds	11 4	11 4
Unsecured convertible bonds	3 8	–
Amortisation of issue and arrangement costs	2 0	1 0
Amortisation of the fair value of the secured bonds	(0 8)	(0 8)
Finance leases	0 5	0 5
Pension interest costs	0 6	0 6
Foreign exchange loss	–	0 2
Other	0 1	0 1
Gross interest costs	46 5	39 8
Less interest capitalised	(2 2)	–
Total finance costs	44 3	39 8

Interest of £2 2m (2010 £nil) has been capitalised on development projects in accordance with IAS 23, Borrowing Costs, using the Group s average cost of borrowings during each quarter Total interest paid during 2011 was £38 5m (2010 £38 8m) of which £2 0m (2010 £nil) was included in capital expenditure on investment properties in the Group cash flow statement under investing activities

The foreign exchange loss in 2010 of £0 2m resulted from the translation of an intercompany loan from a non-trading US subsidiary The impact on net asset value from this exchange movement was minimal as there is an offsetting entry in equity (see Group statement of comprehensive income) During 2011, there was no exchange loss or gain on the intercompany loan

Other finance income in 2010 included £0 8m received as a contribution towards the costs of arranging alternative financing upon the early repayment of a banking facility In accordance with IAS 39, Financial Instruments Recognition and Measurement, this amount was credited to the income statement No such contribution was received in 2011

9 Share of results of joint ventures

	2011 £m	20 0 £m
Revaluation surplus	0 9	0 9
Other profit from operations after tax	0 6	1 1
	1 5	2 0

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

10 Profit before tax

	2011 £m	2010 Restated £m
This is arrived at after charging		
Depreciation and amortisation	0 4	0 3
Contingent rent payable under property finance leases	0 3	0 3
Auditor s remuneration		
Audit – Group	0 3	0 2
Audit – subsidiaries	0 1	0 1

11 Directors' emoluments

	2011 £m	2010 £m
Remuneration for management services	**5 5**	5 0
Non-executive Directors' remuneration	**0 5**	0 5
Gain on exercise of share options	**2 2**	2 5
Pension contributions	**0 5**	0 5
	8 7	8 5
National insurance contributions	**1 1**	1 2
	9 8	9 7

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 £3 3m (2010 £2 6m) and a credit of £0 1m (2010 £0 1m) 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 86 to 95 The only key management personnel are the Directors

12 Employees

	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Staff costs, including those of Directors				
Wages and salaries	**11 0**	10 0	**11 0**	10 0
Social security costs	**1 6**	1 2	**1 6**	1 2
Pension costs	**1 3**	1 2	**1 3**	1 2
Share-based payments expense relating to equity-settled schemes	**3 3**	2 6	**3 3**	2 4
Share-based payments credit relating to cash-settled schemes	**(0 1)**	(0 1)	**–**	–
	17 1	14 9	**17 2**	14 8

The average number of employees in the Group during the year, excluding Directors, was 80 (2010 77) The average number of employees in the Company during the year, excluding Directors, was 76 (2010 73) All were employed in administrative roles In addition, there were a further 13 Group employees (2010 11) whose costs were recharged to tenants

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 86 to 95 other than the employee share plan that is discussed below

Group and Company – equity-settled option scheme
This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 86 to 95 The Directors are not entitled to any awards under this scheme

	Exercise price £	Date from which exercisable	Expiry date	Number of options
Outstanding at 1 January 2010	6 10	18/03/2012	17/03/2019	64,500
Options granted during the year	13 20	18/03/2013	17/03/2020	58 500
Options lapsed	6 10			(5,000)
Options lapsed	13 20			(2,500)
Options lapsed during the year				(7,500)
Outstanding at 31 December 2010				115,500
Options granted during the year	16 60	25/03/2014	24/03/2021	87,500
Options lapsed	6 10			(2,000)
Options lapsed	13 20			(3,000)
Options lapsed	16 60			(1,000)
Options lapsed during the year				(6,000)
Outstanding at 31 December 2011				197,000

No share options were exercisable at 31 December 2011 or 31 December 2010

The weighted average exercise price of share options at 31 December 2011 was £12 62 (2010 £9 54) The weighted average remaining contracted life of share options at 31 December 2011 was 8 37 years (2010 8 70 years) The weighted average exercise price of options that lapsed during 2011 was £11 40 (2010 £8 47) No share options were forfeited during 2011 or 2010

13 Share-based payments (continued)

The following information is relevant in the determination of the fair value of the options granted during 2010 and 2011 under the equity-settled employee share plan operated by the Group

Date of grant	Risk free interest rate %	Volatility %	Dividend yield %
18 March 2010	3 4	40 0	2 0
25 March 2011	2 4	40 0	1 8

For both the 2011 and 2010 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

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 2011 of £15 60 (2010 £15 61) and a dividend yield of 1 9% (2010 1 8%) were used together with a risk-free interest rate of 0 3% (2010 between 0 5% and 1 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 28% pa and 25% pa have been used for options with expected terms of one and two years respectively (2010 21% pa, 44% pa and 46% pa)

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 2011, 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 are entitled to 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 £0 9m (2010 £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 F&C Fund Management Limited, Legal & General Investment Management Limited and Ruffer LLP 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 6 9% pa (2010 7 7% pa) and that salaries will be increased at 4 6% pa (2010 5 0% pa) The market value of assets of the scheme at 31 December 2011 was £13 2m (2010 £12 0m) and the actuarial value of those assets on an ongoing basis represented 90% (2010 110%) of the benefit of £14 7m (2010 £10 9m) that had accrued to members allowing for expected future increases in earnings The pension deficit is £1 5m (2010 £0 7m surplus) The Group paid a deficit reduction contribution of £1 0m during the year (2010 £nil)

Defined benefit obligations

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded obligations	**(14.7)**	(10 9)	(9 9)	(7 7)	(8 8)
Fair value of plan assets	**13.2**	12 0	10 7	8 7	11 6
Unrecognised surplus	**–**	(0 4)	–	–	–
Recognised (deficit)/surplus for defined benefit obligations	**(1.5)**	0 7	0 8	1 0	2 8

Movements in present value of the defined benefit (obligations)/surplus recognised in the balance sheet

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
At 1 January	**0 7**	0 8	1 0	2 8	–
Arising on acquisition of subsidiary	**–**	–	–	–	1 4
Net return	**1 3**	0 3	–	0 3	0 1
Actuarial (losses)/profits recognised in retained earnings	**(3 5)**	(0 4)	(0 2)	(2 1)	1 3
At 31 December	**(1 5)**	0 7	0 8	1 0	2 8

14 Pension costs (continued)

Income recognised in the income statement

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Current service costs	**(0 1)**	(0 1)	(0 1)	(0 1)	(0 1)
Interest on obligation	**(0 6)**	(0 6)	(0 5)	(0 5)	(0 5)
Expected return on plan assets	**0 8**	0 8	0 6	0 8	0 6
	0 1	0 1	–	0 2	–

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Administrative expenses	**(0 1)**	(0 1)	(0 1)	(0 1)	(0 1)
Other finance costs	**(0 6)**	(0 6)	(0 5)	(0 5)	(0 5)
Finance income	**0 8**	0 8	0 6	0 8	0 6
	0 1	0 1	–	0 2	–

Change in the fair value of plan assets

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
At 1 January	**12 0**	10 7	8 7	11 6	–
Arising on acquisition of subsidiary	**–**	–	–	–	10 8
Expected return	**0 8**	0 8	0 6	0 8	0 6
Total contributions	**1 1**	0 1	0 1	0 1	0 1
Benefits paid	**(0 5)**	(0 4)	–	(0 4)	(0 1)
Actuarial (losses)/gains	**(0 2)**	0 8	1 3	(3 4)	0 2
At 31 December	**13 2**	12 0	10 7	8 7	11 6

The actual return on the plan assets for the year was £0 6m (2010 £1 6m) 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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
At 1 January	**10 9**	9 9	7 7	8 8	–
Arising on acquisition of subsidiary	**–**	–	–	–	9 4
Service cost	**0 1**	0 1	0 1	0 1	0 1
Interest cost	**0 6**	0 6	0 5	0 5	0 5
Benefits paid	**(0 5)**	(0 5)	–	(0 4)	(0 1)
Actuarial losses/(gains)	**3 6**	0 8	1 6	(1 3)	(1 1)
At 31 December	**14 7**	10 9	9 9	7 7	8 8

Experience gains and losses

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Experience (losses)/gains on plan assets	**(0 2)**	0 8	1 3	(3 4)	0 2
Experience (losses)/gains on plan liabilities	**(3 6)**	(0 8)	(1 6)	1 3	1 1

Analysis of plan assets

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Equities	**2 3**	2 9	9 3	6 6	9 7
Bonds	**2.2**	2 0	1 0	1 3	0 8
Property	**–**	–	–	0 1	0 1
Cash	**1.4**	0 3	0 4	0 7	1 0
Funds	**7.3**	6 8	–	–	–
Total	**13 2**	12 0	10 7	8 7	11 6

14 Pension costs (continued)

Principal actuarial assumptions

	2011 % pa	2010 % pa	2009 % pa	2008 % pa	2007 % pa
Discount rate at 31 December	**4 7**	5 4	5 7	6 3	5 9
Expected return on plan assets at 31 December	**6 9**	7 7	7 1	6 8	7 3
Future salary increases	**4 6**	5 0	5 0	4 4	4 7
Inflation	**3 1**	3 5	3 5	2 9	3 2
Future pension increases	**4 6**	5 0	5 0	5 0	5 0

15 Tax credit

	2011 £m	20 0 Restated £m
Corporation tax credit/(charge)		
UK corporation tax and income tax on profit for the year	**(0 5)**	(1 2)
Other adjustments in respect of prior years' tax	**1 8**	0 2
	1 3	(1 0)
Deferred tax credit		
Origination and reversal of temporary differences	**0 4**	0 8
Adjustment for changes in estimates	**(0 4)**	0 2
	–	1 0
	1 3	–

In addition, £0 7m (2010 £nil) of deferred tax was recognised in the statement of comprehensive income relating to revaluation of the owner-occupied investment property

The effective rate of tax for 2011 is lower (2010 lower) than the standard rate of corporation tax in the UK The differences are shown below

	2011 £m	20 0 Restated £m
Profit before tax	**233 0**	352 8
Expected tax charge based on the standard rate of corporation tax in the UK of 26 5% (2010 28 0%)	**(61 7)**	(98 8)
Difference between tax and accounting profit on disposals	**9 6**	1 6
REIT exempt income	**7 6**	8 5
Revaluation surplus attributable to REIT properties	**44 5**	83 3
Expenses and fair value adjustments not (allowable)/deductible for tax purposes	**(3 2)**	1 4
Capital allowances	**3 8**	3 4
Other differences	**(1 1)**	0 4
Tax charge on current year's profit	**(0 5)**	(0 2)
Adjustments in respect of prior years' tax	**1 8**	0 2
	1 3	–

The expected tax rate for 2011 has been changed in line with the 2011 Finance Act

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

On 2 June 2011 the Group issued £175m of unsecured convertible bonds The initial conversion price of the bonds was set at £22 22 and the share price at 31 December 2011 was £15 60 Although it is not expected that the bonds would be converted at this share price the dilutive effect of these shares is required to be recognised in accordance with IAS 33, Earnings Per Share For the year ended 31 December 2011, these shares are dilutive for basic earnings per share However they are anti dilutive for both EPRA and underlying earnings per share and all net asset per share measures, and have therefore been excluded from those calculations

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2011 '000	2010 000	2011 000	20 0 000
Number of shares				
For use in basic measures	**101,375**	101 155	**101,641**	101 200
Dilutive effect of convertible bonds	**4,587**	–	**–**	–
Dilutive effect of share-based payments	**667**	661	**656**	669
For use in diluted earnings per share	**106,629**	101,816	**102,297**	101,869
Less dilutive effect of convertible bonds	**(4,587)**	–	**–**	–
For use in other diluted measures	**102,042**	101,816	**102,297**	101 869

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

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2011		232 1		217 67
Interest effect of dilutive convertible bond		(3 8)		
Undiluted profit/earnings	233 0	228 3	225 20	
Adjustment for				
Disposal of properties	(36 1)	(36 1)		
Group revaluation surplus	(170 1)	(169 5)		
Joint venture revaluation surplus	(0 9)	(0 9)		
Fair value movement in derivative financial instruments	26 5	26 5		
Movement in valuation of cash settled share options	(0 1)	(0 1)		
Minority interests in respect of the above	–	4 1		
EPRA	**52 3**	**52 3**	**51 59**	**51 25**
Rates credits	(1 6)	(1 6)		
Underlying	50 7	50 7	50 01	49 69
Year ended 31 December 2010 (restated)	352 8	343 6	339 68	337 47
Adjustment for				
Disposal of properties	(0 9)	(0 9)		
Group revaluation surplus	(298 1)	(298 3)		
Joint venture revaluation surplus	(0 9)	(0 9)		
Fair value movement in derivative financial instruments	2 4	2 4		
Movement in valuation of cash-settled share options	(0 1)	0 1		
Minority interests in respect of the above	–	7 5		
EPRA (restated)	55 2	53 5	52 89	52 55
Foreign exchange loss	0 2	0 2		
Rates credits	(1 7)	(1 7)		
Underlying (restated)	53 7	52 0	51 41	51 07

The figures for 2010 have been restated for the change in accounting policy in respect of owner-occupied property as outlined in note 2

	£m	Basic p	Diluted p
At 31 December 2011			
Net assets	1,714 5		
Minority interest	(51 8)		
Net assets attributable to equity shareholders	1,662 7	1,636	1,625
Adjustment for			
Deferred tax on revaluation surplus	8 2		
Fair value of derivative financial instruments	50 3		
Fair value adjustment to secured bonds	18 6		
EPRA adjusted net asset value	**1,739 8**	**1,712**	**1,701**
Adjustment for			
Deferred tax on revaluation surplus	(8 2)		
Fair value of derivative financial instruments	(50 3)		
Mark-to-market of unsecured bonds	2 4		
Mark-to-market of secured bonds	(39 4)		
EPRA triple net asset value	1,644 3	1,618	1 607
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			
Deferred tax on revaluation surplus	8 6		
Fair value of derivative financial instruments	25 0		
Fair value adjustment to secured bonds	19 4		
EPRA adjusted net asset value	1,501 8	1,484	1 474
Adjustment for			
Deferred tax on revaluation surplus	(8 6)		
Fair value of derivative financial instruments	(25 0)		
Mark-to-market of secured bonds	(16 7)		
EPRA triple net asset value	1,451 5	1,434	1,425

17 Investment property

	Freehold £m	Leasehold £m	Total investment property £m	Owner occupied property £m	Assets held for sale £m	Total property portfolio £m
Group						
Carrying value						
At 1 January 2011	1 965 7	407 6	2 373 3	15 2	–	2,388 5
Acquisitions	85 5	6 1	91 6	–	–	91 6
Capital expenditure	32 5	6 5	39 0	–	2 0	41 0
Additions	118 0	12 6	130 6	–	2 0	132 6
Interest capitalisation	1 9	0 3	2 2	–	–	2 2
Disposals	(95 0)	–	(95 0)	–	–	(95 0)
Depreciation	–	–	–	(0 1)	–	(0 1)
Transfers	(58 0)	(66 3)	(124 3)	–	123 5	(0 8)
Revaluation	136 3	21 8	158 1	2 0	12 0	172 1
At 31 December 2011	**2,068 9**	**376 0**	**2,444 9**	**17 1**	**137 5**	**2,599 5**
At 1 January 2010 (restated)	1,526 1	350 8	1 876 9	11 7	–	1,888 6
Acquisitions	148 0	–	148 0	–	–	148 0
Capital expenditure	42 1	7 4	49 5	–	–	49 5
Additions	190 1	7 4	197 5	–	–	197 5
Disposals	–	(0 2)	(0 2)	–	–	(0 2)
Depreciation	–	–	–	(0 1)	–	(0 1)
Transfer from trading property	1 0	–	1 0	–	–	1 0
Revaluation	248 5	49 6	298 1	3 6	–	301 7
At 31 December 2010 (restated)	1,965 7	407 6	2,373 3	15 2	–	2,388 5
At 1 January 2009 (restated)	1,709 2	363 1	2 072 3	13 3	–	2,085 6
Acquisitions	–	9 8	9 8	–	–	9 8
Capital expenditure	80 2	11 3	91 5	–	–	91 5
Additions	80 2	21 1	101 3	–	–	101 3
Disposals	(207 9)	(8 1)	(216 0)	–	–	(216 0)
Depreciation	–	–	–	(0 1)	–	(0 1)
Revaluation	(55 4)	(24 1)	(79 5)	(1 5)	–	(81 0)
Grossing up of headlease liabilities	–	(1 2)	(1 2)	–	–	(1 2)
At 31 December 2009 (restated)	1,526 1	350 8	1 876 9	11 7	–	1,888 6
Adjustments from fair value to carrying value						
At 31 December 2011						
Fair value	2,118 4	373 8	2 492 2	17 1	137 2	2,646 5
Rents recognised in advance	(49 5)	(4 1)	(53 6)	–	(0 8)	(54 4)
Grossing up of headlease liabilities	–	6 3	6 3	–	1 1	7 4
Carrying value	**2,068 9**	**376 0**	**2,444 9**	**17 1**	**137 5**	**2,599 5**
At 31 December 2010						
Fair value	2,007 9	403 0	2 410 9	15 2	–	2 426 1
Rents recognised in advance	(42 2)	(2 8)	(45 0)	–	–	(45 0)
Grossing up of headlease liabilities	–	7 4	7 4	–	–	7 4
Carrying value	1 965 7	407 6	2,373 3	15 2	–	2,388 5
At 31 December 2009						
Fair value	1,561 6	345 1	1,906 7	11 7	–	1 918 4
Rents recognised in advance	(35 5)	(1 7)	(37 2)	–	–	(37 2)
Grossing up of headlease liabilities	–	7 4	7 4	–	–	7 4
Carrying value	1,526 1	350 8	1 876 9	11 7	–	1,888 6

The property portfolio was revalued at 31 December 2011 by external valuers, on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors CBRE Limited valued properties at £2 615 2m (2010 £2,396 2m, 2009 £1,889 9m) and other valuers at £31 3m (2010 £29 9m, 2009 £28 5m) Of the properties revalued by CBRE £17 1m (2010 £15 2m, 2009 £11 7m) relating to owner occupied property was included within property, plant and equipment and £137 5m (2010 £nil, 2009 £nil) was included within non-current assets held for sale

The figures for 31 December 2010 and 31 December 2009 have been restated for the change in accounting policy in respect of owner-occupied property as outlined in note 2 Also see note 2 for the accounting policy in relation to interest capitalisation

17 Investment property (continued)

The revaluation surplus in the income statement of £170 1m for the year ended 31 December 2011 (2010 £298 1m) included the revaluation surplus for the non-current assets held for sale of £12 0m (2010 £nil) The revaluation surplus for the owner-occupied property of £2 0m (2010 £3 6m) was included within the revaluation reserve

The transfer of £0 8m (2010 £nil, 2009 £nil) relates to artwork held at the Group's properties which was previously capitalised as part of the property However as these items are transferable and would not necessarily be included with a sale of a property they have been transferred to property, plant and equipment in the current year (see note 18)

Historical cost

	2011 £m	2010 Restated £m	2009 Restated £m
Investment property	**2,055 5**	2,085 8	1,887 6
Owner-occupied property	**7 3**	7 3	7 2
Assets held for sale	**69 2**	–	–
Total property portfolio	**2,132 0**	2,093 1	1,894 8

18 Property, plant and equipment

	Owner occupied property £m	Artwork £	Other £m	Total £m
Group				
At 1 January 2011	15 2	0 7	0 8	16 7
Additions	–	–	0 3	0 3
Transfers	–	0 8	–	0 8
Depreciation	(0 1)	–	(0 3)	(0 4)
Revaluation	2 0	–	–	2 0
At 31 December 2011	**17 1**	**1 5**	**0 8**	**19.4**
At 1 January 2010 (restated)	11 7	0 7	0 7	13 1
Additions	–	–	0 4	0 4
Disposals	–	–	(0 1)	(0 1)
Depreciation	(0 1)	–	(0 2)	(0 3)
Revaluation	3 6	–	–	3 6
At 31 December 2010 (restated)	15 2	0 7	0 8	16 7
At 1 January 2009 (restated)	13 3	0 7	0 5	14 5
Additions	–	–	0 4	0 4
Depreciation	(0 1)	–	(0 2)	(0 3)
Revaluation	(1 5)	–	–	(1 5)
At 31 December 2009 (restated)	11 7	0 7	0 7	13 1
Net book value				
Cost or valuation	17 1	1 5	1 8	20 4
Accumulated depreciation	–	–	(1 0)	(1 0)
At 31 December 2011	**17 1**	**1 5**	**0 8**	**19 4**
Cost or valuation	15 2	0 7	2 9	18 8
Accumulated depreciation	–	–	(2 1)	(2 1)
At 31 December 2010 (restated)	15 2	0 7	0 8	16 7
Cost or valuation	11 7	0 7	2 7	15 1
Accumulated depreciation	–	–	(2 0)	(2 0)
At 31 December 2009 (restated)	11 7	0 7	0 7	13 1

The figures for 31 December 2010 and 31 December 2009 have been restated for the change in accounting policy in respect of owner-occupied property as outlined in note 2

18 Property, plant and equipment (continued)

	Artwork £m	Other £m	Total £m
Company			
At 1 January 2011	0 1	0 6	0 7
Additions	–	0 3	0 3
Transfers	0 8	–	0 8
Depreciation	–	(0 2)	(0 2)
At 31 December 2011	**0 9**	**0 7**	**1 6**
At 1 January 2010	0 1	0 5	0 6
Additions	–	0 4	0 4
Disposals	–	(0 1)	(0 1)
Depreciation	–	(0 2)	(0 2)
At 31 December 2010	0 1	0 6	0 7
Net book value			
Cost or valuation	0 9	1 6	2 5
Accumulated depreciation	–	(0 9)	(0 9)
At 31 December 2011	**0 9**	**0 7**	**1 6**
Cost or valuation	0 1	1 8	1 9
Accumulated depreciation	–	(1 2)	(1 2)
At 31 December 2010	0 1	0 6	0 7

The artwork is periodically valued by Bonhams on the basis of open market value and the Directors consider whether any valuation movements have taken place prior to each year end The latest valuation was carried out in March 2011

The historic cost of the artwork in the Group at 31 December 2011 was £1 5m (2010 £0 7m) and £0 9m (2010 £0 1m) in the Company See note 17 for the historic cost of owner-occupied property

19 Investments

Group

The Group has a 50% interest in the joint venture Primister Limited and a 25% interest and 50% voting rights in the joint venture Euro Mall Sterboholy a s

	2011 £m	2010 £m
At 1 January	**8 4**	6 4
Additions	**0 1**	–
Distributions received	**(0 3)**	–
Share of results of joint ventures (see note 9)	**1 5**	2 0
At 31 December	**9 7**	8 4

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

	2011 £m	20 0 £m
Non-current assets	**20 6**	20 5
Current assets	**2 1**	1 8
Current liabilities	**(4 3)**	(4 0)
Non-current liabilities	**(8 7)**	(9 9)
Net assets	**9 7**	8 4
Income	**3 5**	3 8
Expenses	**(2 0)**	(1 8)
Profit for the year	**1 5**	2 0

19 Investments (continued)

Company

	Subsidiaries £m	Joint ventures £m	Total £m
Shares in subsidiaries			
At 1 January 2010	569 5	–	569 5
Impairment reversal	142 8	–	142 8
At 31 December 2010	712 3	–	712 3
Impairment reversal	124 9	–	124 9
At 31 December 2011	837 2	–	837 2
Loans			
At 1 January 2010, 31 December 2010 and 31 December 2011	–	0 4	0 4
At 31 December 2011	**837.2**	**0.4**	**837 6**
At 31 December 2010	712 3	0 4	712 7

At 31 December 2011 and 31 December 2010 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 (2010 increase) which has been reflected as an impairment reversal in the Company income statement of £124 9m (2010 £142 8m), all of which relates to the investment in London Merchant Securities Ltd

20 Principal operating companies

The principal operating companies within the Group at 31 December 2011 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[1]	100%	Property investment
Derwent London Page Street Limited[1]	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[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	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 London Capital (Jersey) Limited	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited[1]	100%	Holding company

[1] 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 and Derwent London Capital (Jersey) Limited which is registered in Jersey

21 Other receivables (non-current)

	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Accrued income	**50 1**	41 3	**–**	–
Other	**5 3**	4 5	**–**	–
	55 4	45 8	**–**	–

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent-free or half rent periods and capital contributions in lieu of rent-free periods as well as contractual rent increases during the lease over the term of their respective leases At 31 December 2011, the total rents recognised in advance were £54 4m (2010 £45 0m) with £4 3m of this amount (2010 £3 7m) included as current assets within trade and other receivables

22 Trading properties

During the year ended 31 December 2010 trading properties of £1 0m were transferred to investment property at book value, as the Directors were of the opinion that these properties will be held for long-term capital appreciation

23 Trade and other receivables

	Group 2011 £m	2010 £m	Company 2011 £m	20 0 £m
Trade receivables	**9 0**	7 5	**–**	–
Amounts owed by subsidiaries	**–**	–	**544 5**	684 8
Other receivables	**13 0**	11 7	**0 7**	0 2
Prepayments	**16 5**	14 8	**0 7**	0 5
Sales and social security taxes	**2 2**	–	**0.5**	0 6
Accrued income	**4 3**	3 7	**–**	–
	45 0	37 7	**546 4**	686 1

	2011 £m	2010 £m
Group trade receivables are split as follows		
less than three months due	**8 8**	7 2
between three and six months due	**0 2**	0 2
between six and twelve months due	**–**	0 1
	9 0	7 5

Group trade receivables includes a provision for bad debts as follows

	2011 £m	20 0 £m
At 1 January	**0 9**	1 9
Additions	**0 6**	0 5
Released	**(1 0)**	(1 5)
At 31 December	**0 5**	0 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
over twelve months due	**0 1**	0 4
	0 5	0 9

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

24 Non-current assets held for sale

	2011 £m	2010 £m
Investment properties (see note 17)	**137 5**	–

In February 2012, the Group signed a joint venture agreement with Grosvenor, the freeholder of 1-5 Grosvenor Place SW1, to consider the redevelopment of the site As part of this transaction, the Group was granted a 150-year headlease and sold 50% of its ownership to the Grosvenor Estate for £60m before costs In addition, the Group has exchanged contracts to sell two properties with completion conditional on a suitable planning permission the receipt of which is expected to occur during the second half of 2012 Therefore, at 31 December 2011, these properties have been recognised as non-current assets held for sale in accordance with IFRS 5, Non current Assets Held for Sale (see note 17 for historic cost)

25 Trade and other payables

	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Trade payables	**7.1**	1 9	**5 8**	2 6
Amounts owed to subsidiaries	**–**	–	**150 2**	296 9
Other payables	**10 9**	10 4	**0 2**	0 6
Sales and social security taxes	**–**	0 2	**–**	–
Accruals	**17 1**	16 2	**8 2**	9 9
Deferred income	**35 8**	34 7	**–**	–
	70 9	63 4	**164 4**	310 0

26 Provisions

	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2011 Total £m	Share option liability £m	Onerous contract £m	National insurance on share based payments £m	20 0 Total £m
Group								
At 1 January	1 1	0 4	0 6	**2 1**	2 1	0 5	0 5	3 1
(Released)/provided in the income statement	(0 1)	–	0 3	**0 2**	(0 1)	–	0 2	0 1
Utilised in year	–	(0 1)	(0 1)	**(0 2)**	(0 9)	(0 1)	(0 1)	(1 1)
At 31 December	1 0	0 3	0 8	**2 1**	1 1	0 4	0 6	2 1
Due within one year	1 0	0 1	0 5	**1 6**	1 1	0 1	0 2	1 4
Due after one year	–	0 2	0 3	**0 5**	–	0 3	0 4	0 7
	1 0	0 3	0 8	**2 1**	1 1	0 4	0 6	2 1
Company								
At 1 January	–	0 4	0 6	**1 0**	–	0 5	0 5	1 0
Provided in the income statement	–	–	0 2	**0 2**	–	–	0 2	0 2
Utilised in year	–	(0 1)	(0 1)	**(0 2)**	–	(0 1)	(0 1)	(0 2)
At 31 December	–	0 3	0 7	**1 0**	–	0 4	0 6	1 0
Due within one year	–	0 1	0 4	**0 5**	–	0 1	0 2	0 3
Due after one year	–	0 2	0 3	**0 5**	–	0 3	0 4	0 7
	–	0 3	0 7	**1 0**	–	0 4	0 6	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 August 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)

27 Borrowings and derivative financial statements

	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Current liabilities				
Bank overdraft	–	5.6	–	0.2
Unsecured bank loan	31.4	–	31.4	–
Loan notes	1.1	–	1.1	–
	32.5	5.6	32.5	0.2
Non-current liabilities				
6.5% secured bonds 2026	192.2	192.9	–	–
2.75% unsecured convertible bonds 2016	162.4	–	–	–
Intercompany loan	–	–	162.1	–
Bank loans	473.5	656.6	197.7	315.0
Unsecured bank loan	–	31.4	–	31.4
Loan notes	–	1.1	–	1.1
Leasehold liabilities	7.4	7.4	–	–
	835.5	889.4	359.8	347.5
Derivative financial instruments expiring in greater than one year	51.9	25.4	30.7	10.2
Total liabilities	919.9	920.4	423.0	357.9

	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Secured				
Bank loans	473.5	656.6	197.7	315.0
6.5% secured bonds 2026	192.2	192.9	–	–
	665.7	849.5	197.7	315.0
Unsecured				
Loan notes	1.1	1.1	1.1	1.1
Bank loans	31.4	31.4	31.4	31.4
2.75% unsecured convertible bonds 2016	162.4	–	–	–
Intercompany loan	–	–	162.1	–
Overdrafts	–	5.6	–	0.2
	194.9	38.1	194.6	32.7
Gross debt	860.6	887.6	392.3	347.7
Leasehold liabilities	7.4	7.4	–	–
Total debt	868.0	895.0	392.3	347.7
Cash and cash equivalents	(3.5)	(7.2)	–	–
Net debt	864.5	887.8	392.3	347.7

At 31 December 2011, £1,551.9m (2010 £1,482.4m) of the Group's properties were subject to a fixed charge to secure the Group's bank loans. In addition, the 2026 bonds are secured by a floating charge over a number of the Group's subsidiary companies which contain £477.0m (2010 £436.6m) of the Group's properties.

At 31 December 2011, £945.3m (2010 £750.8m) of the Group's properties were subject to a fixed charge to secure the Company's bank loans.

27 Borrowings and derivative financial instruments (continued)

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

	< 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 2011							
Bank loans	–	274 0	65 0	40 0	–	98 0	477 0
6 5% secured bonds 2026	–	–	–	–	–	175 0	175 0
2 75% unsecured convertible bonds 2016	–	–	–	–	175 0	–	175 0
Loan notes	1 1	–	–	–	–	–	1 1
Unsecured loans	31 4	–	–	–	–	–	31 4
Total on maturity	32 5	274 0	65 0	40 0	175 0	273 0	859 5
Leasehold liabilities	0 7	0 7	0 7	0 7	0 7	60 3	63 8
Interest on gross debt	21 4	19 3	18 2	18 1	15 9	107 4	200 3
Effect of interest rate swaps	14 8	10 8	8 0	5 0	3 3	5 1	47 0
Gross loan commitments	69 4	304 8	91 9	63 8	194 9	445 8	1,170 6
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

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 2011						
Maturing in						
< 1 year	69 4	(21 4)	(14 8)	(0 7)	–	32 5
1 to 2 years	304 8	(19 3)	(10 8)	(0 7)	(0 3)	273 7
2 to 3 years	91 9	(18 2)	(8 0)	(0 7)	(0 6)	64 4
3 to 4 years	63 8	(18 1)	(5 0)	(0 7)	(1 4)	38 6
4 to 5 years	194 9	(15 9)	(3 3)	(0 7)	(12 6)	162 4
> 5 years	445 8	(107 4)	(5 1)	(52 9)	16 0	296 4
	1,170 6	(200 3)	(47 0)	(56 4)	1 1	868 0
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

27 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 2011							
Bank loans	–	26 0	65 0	40 0	–	70 0	201 0
Intercompany loan	–	–	–	–	175 0	–	175 0
Loan notes	1 1	–	–	–	–	–	1 1
Unsecured loans	31 4	–	–	–	–	–	31 4
Total on maturity	32 5	26 0	65 0	40 0	175 0	70 0	408 5
Interest on debt	7 1	7 0	6 5	6 2	4 0	1 6	32 4
Effect of interest rate swaps	7 0	6 9	5 5	3 5	2 6	2 1	27 6
Gross loan commitments	46 6	39 9	77 0	49 7	181 6	73 7	468 5
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

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
Company						
At 31 December 2011						
Maturing in						
< 1 year	46 6	(7 1)	(7 0)	–	–	32 5
1 to 2 years	39 9	(7 0)	(6 9)	–	(0 1)	25 9
2 to 3 years	77 0	(6 5)	(5 5)	–	(0 6)	64 4
3 to 4 years	49 7	(6 2)	(3 5)	–	(1 4)	38 6
4 to 5 years	181 6	(4 0)	(2 6)	–	(12 9)	162 1
> 5 years	73 7	(1 6)	(2 1)	–	(1 2)	68 8
	468 5	(32 4)	(27 6)	–	(16 2)	392 3
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 5)	(1 5)
	380 9	(23 8)	(5 4)	–	(4 0)	347 7

27 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 2011	**10 0**	**201 0**	**60 0**	**185 0**	**–**	**20 0**	**476 0**
At 31 December 2010	4 4	–	91 0	36 0	40 0	90 0	261 4
Company							
At 31 December 2011	**10 0**	**74 0**	**60 0**	**185 0**	**–**	**20 0**	**349 0**
At 31 December 2010	4 4	–	30 0	36 0	40 0	90 0	200 4

Fixed interest rate and hedged debt

At 31 December 2010, the Group's fixed rate debt comprised the secured bonds 2026 together with the instruments used to hedge its floating rate debt Additionally, at 31 December 2011, it comprised the unsecured convertible bonds 2016, issued during the year At 31 December 2011 and 31 December 2010, the Company's fixed rate debt comprised 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 28 was determined by the ask-price of £122 per £100 as at 31 December 2011 (2010 £109 per £100) The carrying value at 31 December 2011 was £192 2m (2010 £192 9m)

Unsecured Bonds 2016

In June 2011 the Group issued a convertible bond The unsecured instrument pays a coupon of 2 75% until July 2016 In accordance with IFRS the equity and debt components of the bond are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond As a result, £165 4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9 6m, which represents the equity component, was credited to reserves The difference between the fair value of the liability and the principal value is amortised through the income statement from the date of issue Issue costs of £4 8m have been allocated between equity and debt and the element relating to the debt component is amortised over the life of the bond The issue costs apportioned to equity of £0 2m are not amortised The fair value shown in note 28 was determined by the ask-price of £99 per £100 as at 31 December 2011 The carrying value at 31 December 2011 was £162 4m

Reconciliation of nominal value to carrying value

	£m
Nominal value	175 0
Fair value adjustment on issue allocated to equity	(9 6)
Debt component on issue	165 4
Unamortised issue costs	(4 0)
Amortisation of fair value adjustment	1 0
Carrying amount included in total debt at 31 December 2011	162 4

Hedged debt

The hedged debt consists of interest rate swaps and, in 2010, 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 2011 for the period to the contracted expiry dates The fair value of the interest rate cap represented 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 2011						
Interest rate swaps	493 0	4 055	4 97	265 0	3 686	5 69
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

27 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 2011						
Bank loans	–	473 5	–	473 5	4 87	2 61
6 5% secured bonds 2026	–	–	192 2	192 2	6 50	14 22
2 75% unsecured convertible bonds 2016[1]	–	–	162 4	162 4	3 99	4 54
Loan notes	1 1	–	–	1 1	0 25	0 09
Unsecured loans	11 9	19 5	–	31 4	1 86	0 47
	13 0	493 0	354 6	860 6	4 91	5 29
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
Company						
At 31 December 2011						
Bank loans	–	197 7	–	197 7	5 91	3 76
Intercompany loan	–	–	162 1	162 1	3 99	4 54
Loan notes	1 1	–	–	1 1	0 25	0 09
Unsecured loans	11 9	19 5	–	31 4	1 86	0 47
	13 0	217 2	162 1	392 3	4 76	3 83
At 31 December 2010						
Bank overdrafts	0 2	–	–	0 2	2 50	–
Bank loans	110 0	205 0	–	315 0	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 7	205 0	–	347 7	3 74	2 15

[1] The weighted average costs of debt for the secured bonds and the unsecured convertible bonds are based on the nominal amounts 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

	2011 Receivable £m	2011 Payable £m	2010 Receivable £m	2010 Payable £m
Group				
Maturing in				
< 1 year	**5 2**	**(20 0)**	5 1	(17 8)
1 to 2 years	**4.3**	**(15 1)**	8 9	(17 8)
2 to 3 years	**4.4**	**(12 2)**	9 9	(12 9)
3 to 4 years	**4.0**	**(9 0)**	9 5	(10 1)
4 to 5 years	**4.9**	**(8 3)**	8 8	(8 1)
> 5 years	**18.4**	**(23 6)**	36 5	(29 3)
Gross contractual cash flows	**41.2**	**(88 2)**	78 7	(96 0)
Company				
Maturing in				
< 1 year	**2.8**	**(9 8)**	2 3	(7 5)
1 to 2 years	**2.9**	**(9 8)**	4 1	(7 5)
2 to 3 years	**3 0**	**(8 5)**	5 9	(7 5)
3 to 4 years	**3 0**	**(6 5)**	5 8	(6 3)
4 to 5 years	**3 7**	**(6 3)**	4 8	(4 3)
> 5 years	**10 3**	**(12 4)**	19 1	(14 3)
Gross contractual cash flows	**25 7**	**(53 3)**	42 0	(47 4)

28 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	–	3 5	–	3 5	3 5
Other assets – current[1]	–	26 3	–	26 3	26 3
	–	29 8	–	29 8	29 8
Financial liabilities					
Borrowings due within one year	–	–	(32 5)	(32 5)	(32 5)
Borrowings due after one year	–	–	(480 9)	(480 9)	(484 4)
6 5% secured bonds 2026	–	–	(192 2)	(192 2)	(214 4)
2 75% unsecured convertible bonds 2016	–	–	(162 4)	(162 4)	(164 0)
Derivative financial instruments	(51 9)	–	–	(51 9)	(51 9)
Other liabilities – current[2]	–	–	(35 1)	(35 1)	(35 1)
	(51 9)	–	(903 1)	(955 0)	(982 3)
At 31 December 2011	**(51 9)**	**29 8**	**(903 1)**	**(925 2)**	**(952 5)**
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)
Company					
Financial assets					
Other assets – current[1]	–	545 2	–	545 2	545 2
	–	545 2	–	545 2	545 2
Financial liabilities					
Borrowings due within one year	–	–	(32 5)	(32 5)	(32 5)
Borrowings due after one year	–	–	(197 7)	(197 7)	(201 0)
Intercompany loan	–	–	(162 1)	(162 1)	(164 0)
Derivative financial instruments	(30 7)	–	–	(30 7)	(30 7)
Other liabilities – current[2]	–	(150 2)	(14 2)	(164 4)	(164 4)
	(30 7)	(150 2)	(406 5)	(587 4)	(592 6)
At 31 December 2011	**(30 7)**	**395 0**	**(406 5)**	**(42 2)**	**(47 4)**
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 5)	(347 5)	(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)	(360 8)	(667 9)	(671 9)
At 31 December 2010	(10 2)	388 1	(360 8)	17 1	13 1

[1] Other assets includes all amounts shown as trade and other receivables in note 23 except prepayments and sales and social security taxes of £18 7m (2010 £14 8m) for the Group and £1 2m (2010 £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 25 except deferred income of £35 8m (2010 £34 7m) and sales and social security taxes of £nil (2010 £0 2m) All amounts are non-interest bearing and are due within one year

28 Financial assets and liabilities (continued)

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

	Group 2011 £m	2010 £m	Company 2011 £m	2010 £m
Net financial assets and liabilities	**(925 2)**	(918 8)	**(42 2)**	17 1
Other assets – current	**(26 3)**	(22 9)	**(545 2)**	(685 0)
Other liabilities – current	**35 1**	28 5	**164 4**	310 0
Cash and cash equivalents	**(3 5)**	(7 2)	**–**	–
Total net borrowings and derivatives	**(919 9)**	(920 4)	**(423 0)**	(357 9)

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 2011 or 2010

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 25 to 27 and page 81

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

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 and unsecured bonds, interest rate swaps and, in 2010, an interest rate cap

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

28 Financial assets and liabilities (continued)

Credit risk (continued)

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 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 23

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 At 31 December 2011, the proportion of fixed debt held by the Group was above this range at 98% In January 2012, two interest rate swaps were broken and replaced with a lower value of swap This had the effect of reducing this figure to 90% During both 2011 and 2010, 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 £0 1m (2010 £1 3m) or a decrease of £0 1m (2010 £1 3m)

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 27) 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 banks so as to minimise any potential concentration of risk The liquidity risk of the Group is managed centrally by the finance department

28 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 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 2011, the Group's strategy, which was unchanged from 2010, was to maintain the balance sheet gearing below 80% in normal circumstances. The three gearing ratios are defined on page 143 and are derived below.

Balance sheet gearing

	2011 £m	2010 £m
Net debt	**864.5**	887.8
Net assets	**1,714.5**	1,494.7
Balance sheet gearing	**50.4%**	59.4%

Loan to value ratio

	2011 £m	2010 £m
Net debt	**864.5**	887.8
Unamortised issue costs and fair value adjustment of secured bonds	**(18.6)**	(19.4)
Unamortised arrangement costs	**7.9**	5.9
Leasehold liabilities	**(7.4)**	(7.4)
Drawn facilities	**846.4**	866.9
Fair value of property portfolio	**2,646.5**	2,426.1
Loan to value ratio	**32.0%**	35.7%

Interest cover ratio

	2011 £m	2010 £m
Gross property income	**125.5**	119.4
Surrender premiums	**(2.4)**	(0.7)
Ground rent	**(0.8)**	(0.8)
Gross rental income net of ground rent	**122.3**	117.9
Net finance costs	**43.2**	37.9
Foreign exchange loss	**-**	(0.2)
Net pension return	**0.2**	0.3
Finance lease costs	**(0.5)**	(0.5)
Amortisation of fair value adjustment to secured bonds	**0.8**	0.8
Amortisation of issue and arrangement costs	**(2.0)**	(1.0)
Non-utilisation fees	**(1.9)**	(1.4)
Net interest payable	**39.8**	35.9
Interest cover ratio	**307%**	328%

29 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
Deferred tax liability			
At 1 January 2011	8 9	(3 0)	5 9
Released during the year in other comprehensive income	(0 7)	–	(0 7)
Provided/(released) during the year in the income statement	1 2	(0 8)	0 4
Change in tax rates	(0 6)	0 2	(0 4)
At 31 December 2011	**8 8**	**(3 6)**	**5 2**
At 1 January 2010	8 1	(2 2)	5 9
Provided during the year in other comprehensive income	1 0	–	1 0
Provided/(released) during the year in the income statement	0 1	(0 9)	(0 8)
Change in tax rates	(0 3)	0 1	(0 2)
At 31 December 2010	8 9	(3 0)	5 9
Company			
Deferred tax asset			
At 1 January 2011	–	2 6	2 6
Provided during the year in the income statement	–	0 8	0 8
Change in tax rates	–	(0 1)	(0 1)
At 31 December 2011	**–**	**3 3**	**3 3**
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

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 indexation on the historic cost of the properties and any available capital losses. Due to the Group's REIT status, deferred tax is only provided at each balance sheet date on properties outside of the REIT regime.

30 Equity

The authorised share capital was £6.04m at 1 January 2010, 31 December 2010 and 31 December 2011. The number of 5p ordinary shares in issue at the year end was 101,640,982 (2010: 100,200,297). In 2011, 296,225 (2010: nil) shares were issued as a result of scrip dividends awarded during the year, 144,460 (2010: 39,034) shares were issued as a result of awards vesting under the Group's Performance Share Plan, and in 2010, 211,000 shares were issued as a result of the exercise of share options which realised proceeds of £1.3m. The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 86 to 95 and note 13.

31 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	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS). The Company balance also includes its impairment of the investment in LMS
Foreign exchange	Gains or losses arising on retranslating the net assets of overseas operations
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax
Other	Equity portion of the convertible bonds
	Fair value of equity instruments granted but not yet exercised under share-based payments
Retained earnings	Cumulative net gains and losses recognised in the Group income statement

31 Reserves (continued)

The breakdown of other reserves is as follows

	Group 2011 £m	2010 Restated £m	2009 Restated £	Company 2011 £m	20 0 £m
Merger reserve	**910 5**	910 5	910 5	**596 7**	471 8
Foreign exchange translation reserve	**4.2**	4 2	4 0	**–**	–
Revaluation reserve	**8.7**	6 0	3 4	**–**	–
Equity portion of the convertible bonds	**9.4**	–	–	**–**	–
Fair value of equity instruments under share-based payments	**3.8**	3 3	2 2	**3.8**	3 3
	936.6	924 0	920 1	**600.5**	475 1

The revaluation reserve has been restated in 2010 and 2009 for the change in accounting policy in respect of owner-occupied property as outlined in note 2

32 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 £90 3m (2010 £131 3m) which has been dealt with in the accounts of the Company

33 Dividends

	Payment date	Dividend per share p	2011 £m	20 0 £m
Current year				
2011 final dividend	15 June 2012	21 90	**–**	–
2011 interim dividend	4 November 2011	9 45	**9 6**	–
Distribution of current year profit		31 35	**9 6**	–
Prior year				
2010 final dividend	16 June 2011	20 25	**20 5**	–
2010 interim dividend	5 November 2010	8 75	**–**	8 8
Distribution of prior year profit		29 00	**20 5**	8 8
2009 final dividend	17 June 2010	18 85	–	19 1
Dividends as reported in the Group statement of changes in equity			**30 1**	27 9
2011 interim dividend withholding tax	27 January 2012		**(1 4)**	–
2011 interim scrip dividend	4 November 2011		**(2 3)**	–
2010 final scrip dividend	16 June 2011		**(2 4)**	–
2010 interim dividend withholding tax	14 January 2011		**1 4**	(1 4)
2009 interim dividend withholding tax	14 January 2010		**–**	1 3
Dividends paid as reported in the Group cash flow statement			**25 4**	27 8

34 Cash and cash equivalents

	Group 2011 £m	2010 £m	Company 2011 £m	20 0 £m
Overdrafts	**–**	(5 6)	**–**	(0 2)
Short-term deposits	**3 5**	7 2	**–**	–
	3 5	1 6	**–**	(0 2)

35 Total return

	2011 %	20 0 %
Total return	**17.4**	29 3

36 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2011 and not provided for in the accounts amounted to £17 0m (2010 £11 6m) These contracts relate wholly to the construction, development or enhancement of the Group's investment properties At 31 December 2011 and 31 December 2010, there were no obligations for the purchase, repair or maintenance of investment properties

37 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans At 31 December 2011 the maximum liability that could arise for the Company from the cross guarantees amounted to £nil (2010 £5 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

38 Post balance sheet events

In February 2012, the Group signed a joint venture agreement with Grosvenor for the future development of 1-5 Grosvenor Place, SW1 As part of the transaction the headleases, that were due to expire in 2063 and 2084, were regeared into a new 150-year term at a ground rent of 5% of rental income Simultaneously, the Group has sold 50% of its ownership to Grosvenor and received £60m, before costs

39 Leases

	2011 £m	2010 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received		
not later than one year	**117 8**	112 2
later than one year and not later than five years	**333.7**	315 4
later than five years	**839 8**	815 7
	1,291 3	1,243 3

	2011 £m	2010 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due		
not later than one year	**0 7**	0 6
later than one year and not later than five years	**2 8**	2 4
later than five years	**60 3**	43 5
	63 8	46 5
Future contingent rent payable on finance leases	**(23 3)**	(5 9)
Future finance charges on finance leases	**(33 1)**	(33 2)
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

	2011 £m	2010 £m
Finance charge	**0 5**	0 5
Contingent rent	**0 3**	0 3
Total	**0 8**	0 8

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 2011 was 10 0 years (2010 8 4 years) Of these leases, 59% (2010 47%) included a rent-free or half rent period or at the start of the lease

40 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 86 to 95 and note 11 Other related party transactions are as follows

Group

Up until 1 October 2011, John Burns and Simon Silver were partners in The Pilcher Hershman Partnership (LLP) estate agents when they resigned After their resignation they held no further interest in the partnership 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 in the nine months to 30 September 2011 (year to 31 December 2010 £0 5m) Procedures had been established whereby the Audit Committee were able to verify that neither John Burns nor Simon Silver derived any direct benefit from these fees

In 2011, following a move to smaller premises, LMS Capital plc, an investment company of which Robert Rayne is a director, occupied offices owned by the Group for which they paid a commercial rent of £0 2m (2010 £0 4m) The Group also contributed £0 1m (2010 £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 £nil (2010 £0 2m) to Everton Philips LLP a firm in which the son of Mr J D Burns was a partner, and £0 1m (2010 £nil) in respect of the disposal of certain properties to Hamilton Investment Properties Ltd, a company of which Mr S P Silver's son was a director

There are no outstanding balances owed to the Group with respect to all of the above transactions

At 31 December 2011 included within other receivables in note 23 is an amount owed by the Portman Estate the minority owner of one of the Group's subsidiaries, of £10 2m (2010 £9 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 interest from some of its subsidiaries during the year These transactions are summarised below

	Interest (payable)/receivable		Balance owed/(owing)	
	2011 £m	2010 £m	**2011 £m**	20 0 £m
Related party				
Derwent Central Cross Limited	**6 9**	2 9	**146 9**	145 6
Derwent Henry Wood Limited	**2 3**	0 2	**49 0**	49 4
Derwent Valley Central Limited	**4 3**	12 0	**143 3**	219 5
Derwent Valley London Limited	**5 0**	6 4	**108 6**	135 7
Derwent Valley Property Developments Limited	**3 3**	2 7	**92 5**	58 6
Derwent Valley Property Investments Limited	**(2 6)**	(0 2)	**(73 3)**	(3 2)
Derwent Valley West End Limited	**–**	(0 1)	**–**	(2 1)
Derwent London Page Street Limited	**–**	–	**0 4**	–
Derwent London Capital (Jersey) Limited	**(2 8)**	–	**(164 8)**	–
Derwent Valley Property Trading Limited	**–**	0 1	**–**	0 1
Derwent Valley Railway Company[2]	**–**	–	**(0 2)**	(0 2)
London Merchant Securities Limited[3]	**(4 4)**	(6 4)	**(69 7)**	(215 5)
	12 0	17 6	**232 2**	387 9

The payable balance at 31 December 2011 includes the long term intercompany loan of £162 1m (2010 £nil) included note 27
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 except the long-term loan from Derwent London Capital (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds

From 1 January 2010, interest was charged on the on-demand intercompany balances at an arms length basis

41 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 in accordance with SIC 15, Operating Leases – Incentives This includes the effect of lease incentives given to tenants, which are normally in the form of rent-free or half rent 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

Borrowing costs

In accordance with IAS 23, Borrowing Costs, the Group capitalises interest on development expenditure at the average cost of borrowings during the period

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

41 Significant accounting policies (continued)

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 comprehensive income

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 In addition in accordance with IAS 23 Borrowing Costs, interest that is directly attributable to such expenditure is capitalised using the Group's average cost of borrowings during each quarter

(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

41 Significant accounting policies (continued)

Property, plant and equipment

(i) Owner-occupied property – Owner-occupied property is stated at its revalued amount which is determined in the same manner as investment property It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount Subsequent depreciation charges are adjusted based on the revalued amount for each property Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income The land element of the property is not depreciated

(ii) Artwork – Artwork is stated at revalued amounts on the basis of open market value

(iii) Other – 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

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

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

41 Significant accounting policies (continued)

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.

Principal properties

	Value banding £m	Offices (O) Retail/restaurant (R) Residential (Re) Industrial (I) Leisure (L)	Freehold (F) Leasehold (L)	Aporox net area m²
West End: Central (68%)				
Fitzrovia[1]/Euston (36%)				
Central Cross, 18-30 Tottenham Court Road, W1	100+	O/R/L	F	23,800
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	L	7,400
Middlesex House, 34-42 Cleveland Street W1	25-50	O	F	6,000
Network Building, 95-100 Tottenham Court Road, W1	25-50	O/R	F	6,000
88-94 Tottenham Court Road, W1	0-25	O/R	F	4,900
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	25-50	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/L	F	2,700
7-8, 9 and 10 Rathbone Place, W1	0 25	O/R/Re	L	2 100
1-5 Maple Place and 12-16 Fitzroy Street, W1	0-25	O	F	1 900
Victoria (14%)				
Horseferry House, Horseferry Road, SW1	100+	O	F	15,100
Greencoat and Gordon House, Francis Street SW1	75-100	O	F	11,900
1 Page Street, SW1	50-75	O	F	11,800[3]
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
Belgravia (5%)				
Hyde Park Corner Estate SW1 1 Grosvenor Place 4 Grosvenor Place 3-5 Pembroke Close	100+	O/R/Re	L	15,600
Baker Street/Marylebone (5%)				
19-35 Baker Street, W1	25-50	O/R	L	6,600
88-110 George Street, W1	25-50	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	2,100
17-39 George Street, W1	0-25	O/R/Re	L	2,000
Soho/Covent Garden (5%)				
Bush House, South West Wing, Strand WC2	0-25	O	F	10,000
Tower House, 10 Southampton Street, WC2	25-50	O/R/Re	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
Mayfair (2%)				
25 Savile Row, W1	50-75	O/R	F	3,900
Paddington (1%)				
55-65 North Wharf Road, W2	25-50	O	L	7 200

	Value banding £m	Offices (O) Retail/restaurant (R) Residential (Re) Industrial (I) Leisure (L)	Freehold (F) Leasehold (L)	Approx net area m²
West End Borders (9%)				
Islington/Camden (8%)				
Angel Building, 407 St John Street, EC1	100+	O/R	F	24,400
4 & 10 Pentonville Road, N1	0-25	O	F	5,100[3]
Balmoral Grove Buildings 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
423-425 Caledonian Road, N7	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	75-100	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
Clerkenwell (5%)				
88 Rosebery Avenue EC1	25-50	O	F	9,600
Morelands Buildings 5-27 Old Street EC1	0-25	O/R	L	8 300
Buckley Building, 49 Clerkenwell Green, EC1	25-50	O	F	7,900[1]
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	F/L	5,700
6-7 St Cross Street, EC1	0-25	O	F	3 100
Shoreditch (4%)				
Tea Building Shoreditch High Street, E1	75-100	O/R/L	F	23 300
60 Commercial Road, E1	0-25	O	F	2,800
Provincial (4%)				
Scotland (4%)				
Strathkelvin Retail Park, Bishopbriggs Glasgow	50 75	R	F	29,100
Triangle Centre Bishopbriggs Glasgow	0-25	O/R	F	6,800
Land, Bishopbriggs, Glasgow	25 50	-	F	5,500 acres

Includes areas north of Oxford Street
Includes a 224 room hotel
Proposed scheme area
( ) percentages weighted by valuation

Five-year summary

	201 £m	2010 £m	2009 £m	2008 £m	2007 £m
Gross property income	125 5	119 4	123 8	119 0	111 7
Net property income	117 7	113 0	114 8	95 5	103 8
EPRA profit before tax	52 3	55 2	61 8	22 2	36 6
Profit/(loss) on disposal of properties and investments	36 1	0 9	(16 6)	1 2	130 8
Profit/(loss) before tax	233 0	352 8	(34 9)	(606 5)	(99 8)
Net assets	1,714 5	1,494 7	1,163 9	1,215 0	1,841 9
Property portfolio at fair value	2,599 5	2,388 5	1,918 4	2,108 0	2,671 7
Revaluation surplus/(deficit)	172 1	301 7	(81 1)	(602 1)	90 3
Net debt	864 5	887 8	720 8	865 4	782 8
Cash flow[2]	18 3	(171 6)	139 5	(83 7)	116 9
Net cash inflow from operating activities	47 1	46 5	66 4	38 3	28 4
Acquisitions	91 6	148 0	10 2	31 9	140 7
Capital expenditure on properties	42 6	49 5	94 6	72 9	68 3
Disposals	131 5	8 5	195 5	72 6	352 4
EPRA earnings per share (p)	51 59	52 89	57 14	21 74	36 18
Underlying earnings per share (p)	50 01	51 40	50 79	21 24	33 48
Dividend per share					
IFRS (p)	29 60	27 60	24 50	23 15	18 03
Distribution of year earnings (p)	31 35	29 00	27 00	24 50	22 50
Net asset value per share (p)	1,636	1 432	1,117	1,170	1 770
EPRA net asset value per share (p) – undiluted	1,712	1,484	1,168	1,226	1,801
EPRA net asset value per share (p) – diluted	1,701	1,474	1,161	1,222	1,795
EPRA triple net asset value per share (p)[3]	1,607	1,425	1,126	1,206	1,770
EPRA total return (%)	17 4	29 3	(2 9)	(30 6)	2 8
Gearing					
Balance sheet (%)	50 4	59 4	61 9	71 2	42 5
Loan to value (%)	32 0	35 7	36 4	39 7	28 2
Interest cover ratio (%)	307	328	330	247	224

[1] The comparative figures for 2009 and 2010 have been restated for the changes outlined in note 2. The 2007 to 2008 figures have not been altered

[2] Cashflow is the net cash from operating and investing activities less the dividend paid

[3] Calculated on a fully diluted basis

A list of definitions is provided on page 143

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 and the convertible bond

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 (www.epra.com/media/EPRA_2010_BPR.pdf) This includes guidelines for the calculation 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 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)

Underlying earnings per share
EPRA earnings per share adjusted for items which are excluded to show the underlying trend

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 and capitalised interest

Loan to value ratio (LTV)
The nominal value of borrowed funds divided by the fair value of investment property

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)
The 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 EPRA adjusted net asset value per share between the beginning and the end of each financial year plus the dividend per share paid during the year expressed as a percentage of the EPRA 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 year 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' estimated 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 amount by which the rental value as estimated by the Group's external valuers is higher than the rent roll of a property or portfolio 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 year

Financial calendar

Issue of first quarter 2012 interim management statement	9 May 2012
Annual General Meeting	16 May 2012
Payment of 2011 final dividend	15 June 2012
Announcement of 2012 interim results	August 2012
Issue of third quarter 2012 interim management statement	November 2012
Payment of 2012 interim dividend	November 2012
Announcement of 2012 results	March 2013

Advisors

Auditor
BDO LLP

Principal solicitors
Slaughter and May

Brokers
UBS
JP Morgan Cazenove

Principal clearing bank
HSBC Bank plc

Registrar
Equiniti

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DERWENT
LONDON

Derwent London plc

Registered office
25 Savile Row
London W1S 2ER

T +44 (0)20 7659 3000
F +44 (0)20 7659 3100
www.derwentlondon.com

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