Derwent London plc
Interim results 2011
announcement

24 August 2011

Interim results for the six months ended 30 June 2011

STRONG PERFORMANCE FROM DERWENT LONDON

Highlights

Excellent lettings performance

- Income of £8.5m pa from lettings in the six months ended 30 June 2011 exceeded the whole of 2010
- Open market transactions in the first half were 9.6% above year end estimated rental values
- Further lettings with total income of £4.1m pa since 30 June 2011 and Angel Building EC1 now 95% let
- Vacancy rate falls to 1.1% taking into account space let or under offer since 30 June 2011

Valuation

- Property portfolio valued at £2.6bn at 30 June 2011, an underlying valuation increase of 5.1% in six months, outperforming the IPD Capital Growth Index of 4.6% for central London offices and 1.4% for all UK property
- Robust rental growth with estimated rental values increasing by 4.0% in the first half
- EPRA adjusted NAV per share increased in the half year by 10.0% to 1,621p at 30 June 2011

Progress on projects

- Total projects on site or due to commence in 2011 amount to 450,000 sq ft (41,800m²)
- Two planning consents received and four more decisions due shortly including 80 Charlotte Street W1 where the outcome will now be determined by the Mayor of London
- Planning applications to be submitted in the second half including Riverwalk House SW1 and 1 Oxford Street W1

Acquisitions and disposals

- Acquisitions of 1 Page Street SW1 and the Network Building W1 totalling £76m
- Active capital recycling programme amounting to £127m at 37% above book value

Finance

- EPRA profit before tax of £26.6m (30 June 2010: £26.3m)
- Loan to value ratio of 34.2% at 30 June 2011 (31 December 2010: 35.7%)
- Successful launch in May 2011 of a £175m convertible bond due July 2016 with a 2.75% coupon and an initial conversion price of £22.22
- Interim dividend increased by 8.0% to 9.45p per share

Awards

- Angel Building EC1 shortlisted for the prestigious RIBA Stirling Prize 2011

John Burns, Chief Executive, commented:

'We are pleased to report a strong half year performance. We continue to see good demand for our space and have further strengthened our financial base through disposals and the £175m convertible bond issue. Although the economic outlook has become more uncertain in recent weeks, the Group is well positioned with its substantial reversionary income stream and flexible pipeline of future schemes.'

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There will be a webcast of the results at 9:30am today which can be accessed at www.derwentlondon.com

Chairman's statement

Review

Derwent London's core operating areas in London's West End continued to demonstrate their resilience during the first half of 2011 in contrast to the rest of the United Kingdom where the effects of economic uncertainty prevailed. During this period, the Group's EPRA adjusted net asset value per share increased 10.0% to 1,621p from 1,474p at the year end, driven by rental growth, development surpluses and another excellent letting performance. The underlying valuation increase in the Group's portfolio over the period was 5.1% which compares to a return of 4.6% from the IPD Capital Growth Index for central London offices and 1.4% for all UK property.

In central London, both the investment and occupational markets showed strength through the period. The investment market continued to benefit from London being a preferred location for international investors whilst tenant demand in central London has led to higher rents in an environment of limited available space.

During the first half, there was sustained appetite for the Group's distinctive brand of mid-priced, well designed office space. Fifty-one transactions were completed totalling 264,800 sq ft (24,600m²) with a combined annual rental income of £8.5m. This exceeds the income generated from lettings made in the whole of 2010. Since the half year, a further 107,400 sq ft (10,000m²) has been let with a total rental income of £4.1m per annum including 81,300 sq ft (7,600m²) to Expedia at the Angel Building. This flagship building, which has won three architectural awards and recently been nominated for the prestigious RIBA Stirling Prize, is now 95% let and our success here demonstrates the Group's ability to attract tenants to improving London villages.

Lettings completed in the year to date together with space put under offer have reduced the level of immediately available space to only 1.1% and, overall, the open market lettings made in the same period achieved rents 10.1% above the December 2010 estimated rental values.

Since the year end we have taken the opportunity to recycle £127m of capital through disposals which realised a surplus of 37% above the December 2010 valuation, after adjusting for capital expenditure. The disposals are as follows: five properties in Covent Garden for £68m; 79-89 Pentonville Road N1 for £11m; Victory House W1 for £37m; and a site at Leonard Street EC2 for £11m where we had obtained planning permission for a mainly residential scheme. The last two of these sales have been completed since the half year.

Encouraged by these achievements we have pushed ahead with work at our regeneration and redevelopment sites and advanced our plans for a number of projects in the development pipeline so establishing a solid platform for the delivery of key schemes over the next few years.

The refurbishment of Victory House was completed in July and we are currently on site at four major projects which, when complete, will have a total area of 307,000 sq ft (28,500m²). Total capital expenditure to complete these four projects is approximately £47m. Two further schemes are planned to commence in the second half of the year.

We expect to hear the outcome of the Mayor of London's review of our planning application for the redevelopment of 80 Charlotte Street W1 on 19 September 2011. The Mayor, who has ultimate authority in planning matters in the capital, has called in our application following its refusal by the local authority despite being recommended for approval by its planning officers.

At 132-142 Hampstead Road NW1, we await the results of the public consultation into HS2, the controversial new high speed rail link, which may impact upon our property. While this process is being completed we continue to develop two alternative schemes for the site and work to capitalise on the pre-let interest shown by potential tenants. This should enable us to make a decision as to the optimum strategy for the building by the end of the year.

Vacant possession has been achieved at Riverwalk House SW1 and we will shortly be submitting a planning application for a 148,000 sq ft (13,700m²) high-grade residential scheme. We are in negotiations to sell the site whilst retaining a share in the project's profit over a minimum level. In addition we continue to make progress in our negotiations with the freeholder of our Grosvenor Place properties and look forward to providing a more detailed update later in the year.

Whilst progressing major schemes from our pipeline, we also considered a number of possible additions to the portfolio and were pleased to make two off-market, central London acquisitions in the first half for £76m before costs. We acquired 1 Page Street SW1 for £45m and the headlease of the Network Building, 95-100 Tottenham Court Road W1, where we already held the freehold, for £31m. We continue to look for further acquisitions that will contribute to the strategic aims of the Group.

In June the Group took advantage of favourable financial market conditions to diversify its sources of finance by issuing a £175m convertible bond on attractive terms including a coupon rate of 2.75% and an initial conversion price of £22.22 per share. This represented a 30% premium to the share price on the day of issue and was approximately 50% above the Group's net asset value per share at 31 December 2010. The Group also added two years to the term of a £100m revolving bank facility that had been due to expire in 2013.

Results

EPRA profit before tax for the six month period increased to £26.6m from £26.3m for the comparable period in 2010 whilst statutory profit before tax, which includes valuation movements, was £173.3m compared to £214.1m in the first half of 2010. The year-on-year reduction was primarily caused by the reduced revaluation surplus. Interest cover for the first half, which reflects the Group's new accounting policy regarding the capitalisation of interest, was 312%, only slightly lower than the 320% reported for the first half of 2010.

As at 30 June 2011, the Group's net debt increased to £904.5m from £887.8m at the year end. However, with the increase in property values over the period, the Group's loan to value ratio declined from 35.7% at 31 December 2010 to 34.2% at the half year.

Boosted by the funds raised from the convertible bond, undrawn available bank facilities increased from £245m at the year end to £402m at 30 June 2011. Over the same period, the level of uncharged property increased from £484m to £541m.

Dividend

In line with the board's progressive dividend policy and supported by the Group's strong financial position, the interim dividend has been increased by 8.0% to 9.45p per share from last year's level of 8.75p per share. The dividend remains well covered and will be paid as a property income distribution on 4 November 2011 to shareholders on the register at the close of business on 30 September 2011. A scrip alternative is being offered for this dividend.

Outlook

Throughout the first half, conditions in the central London market were favourable, supported by investment and tenant demand. However, recent concerns over the weakness of the global economic recovery, the levels of sovereign debt in Europe and the US budget deficit have made the outlook for the second half more uncertain. We are mindful of the risks that this presents but have no significant exposure to the City core which is likely to be affected most by these influences. In addition, with our strong balance sheet, adaptable development pipeline, low capital values and affordable rents, we are well positioned to respond to events appropriately.

We are therefore continuing to assess potential acquisitions and to move ahead with the Group's development programme to capitalise on its value enhancing opportunities. We believe that our flexible and proven business model, with an emphasis on creative asset management, will continue to deliver above average long-term returns to shareholders.

R.A. Rayne
24 August 2011

Business review

Our market

Central London's economy and property market both continued to perform well during the first half as demand from tenants coincided with low development completions. The vacancy rate in the central London office market fell to 4.9%, its lowest level since the third quarter of 2008 and the supply-demand imbalance led to growth in rental and capital values. The strongest performance in central London was in the West End, where the vacancy rate fell to 3.8% from 5.2% at the beginning of the year; it is likely to fall further in the second half given the limited amount of space due for delivery. In the City, the vacancy rate in the first half fell to 6.6% from 6.8%.

On the investment side, the central London market remained attractive to both domestic and overseas investors partly due to continued weakness in sterling and low interest rates. In the first half, transactions totalled £4.5bn which was £0.6bn higher than the same period last year and in line with the long-term average.

Our portfolio

Valuation

At 30 June 2011, the Group's total property portfolio was valued at £2.6bn. The valuation surplus over the first half of 2011 was £123.1m before lease incentive adjustments of £4.6m, giving a total surplus of £118.5m. Although the valuation benefitted from a slight yield shift, rental growth and project surpluses were the dominant factors in delivering this performance.

The first half of the year saw an underlying valuation increase of 5.1%, similar to the 5.0% growth in the second half of 2010. This would have been 80 basis points higher at 5.9% if the sales completed in the first half, which achieved very attractive levels, had been retained and valued at the disposal price. Both valuation returns were above the IPD Capital Growth Index of 4.6% for central London offices and of 1.4% for all UK property.

Our central London assets, which represent 96% of the portfolio, increased in value by 5.3%, with the balance of the portfolio, our Scottish holdings, increasing by 1.1%. Within central London, the West End had the best performance with growth of 5.4%, whilst the City border properties increased by 4.9%. Our development properties, which form part of our investment portfolio, were valued at £132.3m and there was a strong underlying valuation gain of 18.8%. The main contributor was the £9.5m (37%) uplift at Victory House, Fitzrovia which was pre-sold and the sale completed after the half year for £37.2m.

There was robust rental growth across the portfolio which reflected the continued strength of the central London office market and the buoyant demand for our particular brand of contemporary, mid-market space. The portfolio's underlying estimated rental value increased by 4.0% over the first half, giving an 18-month improving trend. The increase was 2.8% in the second half of 2010 and 2.6% in the first half of 2010. Looking at our current letting enquiries and activity, this rental value progression appears sustainable over the near term. In addition, with our low average office rents at £25.82 per sq ft (£278 per m^2) in central London and £27.16 per sq ft (£292 per m^2) in the West End properties, these levels offer good prospects for growth in the supply-constrained occupier market.

The portfolio's EPRA net initial yield was 4.3% at 30 June 2011 which would rise to 5.2% on an EPRA 'topped up' basis, following the expiry of rent-free periods and contracted rental uplifts. The reversionary yield is 5.8%. This compares to the 2010 year end yield profile of 4.7%, 5.3% and 5.9%, respectively.

The portfolio's true equivalent yield was 5.7% at the half year, a slight tightening on the 5.8% at the year end. Looking at the Group's total property return this was 7.9% for the first half against our benchmark IPD Central London Office Index of 7.2% and the All UK Property Index of 4.4%.

Lettings

There has been sustained demand for our space; total annual rental income from new lettings in the first half amounted to £8.5m which compares to £3.5m for the first six months of 2010 and £8.0m for the whole of 2010. Open market lettings, which accounted for three quarters of the total by floorspace, were 9.6% ahead of estimated rental values at 31 December 2010. At the end of June, the portfolio's vacancy rate for immediately available space had fallen from 5.9% to 4.0% by estimated rental value and from 4.9% to 3.5% by floor area since the year end.

Overall, in the first half, there were 51 lettings for floorspace of 264,800 sq ft (24,600m²) which compares to 47 transactions for 125,700 sq ft (11,700m²) in the first half of 2010. Including short-term transactions at properties held for future development, lettings were 5.9% above estimated rental values at 31 December 2010. Altogether, 76% of lettings were to tenants who wanted more space, 20% who kept it unchanged and 4% who reduced the amount of space they occupied.

Momentum has continued since the end of June with further transactions amounting to 107,400 sq ft (10,000m²) at an income of £4.1m pa. This takes total lettings year to date to 372,200 sq ft (34,600m²) at £12.6m pa, of which open market lettings were 10.1% above year end estimated rental values. Including all transactions and space placed under offer, the Group's vacancy rate would fall to 1.1% by estimated rental value. We are particularly pleased with progress at the Angel Building EC1 which is now 95% let less than a year since completion. We concluded four transactions at this property in the first half amounting to 41,600 sq ft (3,900m²) and £1.6m annual rental income; Sage Pay and NG Bailey took office space on the third floor, while the two main retail units were let to restaurant operators Jamie's Italian and Busaba Eathai. In July, Expedia took the two upper floors totalling 81,300 sq ft (7,600m²) at an annual rental income of £3.3m and the last remaining retail unit went under offer. This leaves just over 12,000 sq ft (1,100m²) of office space available in the 263,000 sq ft (24,400m²) building.

At the Tea Building E1, rents reached £32.50 per sq ft (£350 per m²), in a letting to Method, a media consultancy. This represents a substantial increase on initial rents of £10 per sq ft (£110 per m²) nearly ten years ago. This building, which has become a hub for creative and technology companies, has a waiting list of occupiers and goes from strength to strength.

Other office leasing transactions in the first half included two previously reported pre-lets at 88 Rosebery Avenue EC1 and 33 George Street W1. The recently completed Fitzroy+Maple office refurbishment in Fitzrovia was also fully let during the second quarter in two transactions; one to a financial firm at 1 Maple Place and the other to a media agency at 12 Fitzroy Street, achieving rents of £41 per sq ft (£440 per m²) and £40 per sq ft (£430 per m²), respectively, 28% and 21% above year end estimated rental values.

Asset management

As reported earlier in the year, two important asset management initiatives were completed in the first half, allowing potential for significant value uplift through refurbishment. Whilst the previous tenant continues to pay rent of £2.45m pa until March 2015, we have obtained vacant possession and are on site at Woodbridge House EC1, which is being refurbished and the space enlarged by 13% to 85,000 sq ft (7,900m²). At Morelands Buildings EC1 the headlease has been regeared and, following some minor works in the first half, a 33,000 sq ft (3,100m²) refurbishment of approximately 40% of the building will commence later this year.

We continue to add value to the portfolio through active asset management with 14 rent reviews and 17 lease renewals concluded in the first half of the year, at a combined rent of £4.7m pa. This reflects an uplift of £0.6m pa or 13.9% on the previous income.

Tenant retention remains high. During the first half of the year, lease expiries and breaks in the portfolio amounted to a total rental income of £10.8m pa. After excluding space taken back for identified projects, which represented £4.8m pa, 77% of this income was retained, 17% re-let during the half year and a further 2% subsequently re-let or placed under offer, in line with last year's performance. Rent collection was also prompt in the opening two quarters of the year with 96% and 97% of rent collected within 14 days of the due date in the first and second quarters, respectively.

Projects update

During the first half, we commenced work on four schemes and received two planning consents, at Woodbridge House EC1 and 2-14 Pentonville Road N1. In the second half we intend to begin upgrades at Central Cross W1 and Morelands Buildings EC1. We also await the outcome of four planning applications which are due shortly, at Central Cross W1, 80 Charlotte Street W1, Turnmill EC1 and City Road Estate EC1 and will submit a number of further applications including major schemes at Riverwalk House SW1 and 1 Oxford Street W1.

On site

Total projects on site or due to commence in 2011 amount to 450,000 sq ft (41,800m²) with an estimated capital expenditure of £71m.

At 30 June 2011, there were five principal projects on site totalling 355,000 sq ft (33,000m²) including:

- 1 Page Street SW1 – an extensive refurbishment of this 118,000 sq ft (11,000m²) building to provide high quality, contemporary office space for either single or multiple occupation with delivery next year and estimated rents of c.£47.50 per sq ft (£510 per m²).

- Woodbridge House, 30 Aylesbury Street EC1 – this building is being refurbished and extended to 85,000 sq ft (7,900m²). The works are due to complete in the final quarter of 2012 and we anticipate achieving rents of c.£40 per sq ft (£430 per m²).

- 2-14 Pentonville Road N1 – an office refurbishment and extension is underway, increasing the floor area by over 20% to 55,000 sq ft (5,100m²). This scheme, which is located opposite the Angel Building, is expected to complete in the third quarter of 2012 with rents of c.£35 per sq ft (£380 per m²).

- 88 Rosebery Avenue EC1 – a 49,000 sq ft (4,500m²) refurbishment of nearly half the building which has been pre-let to City University at £1.2m pa.

- Victory House, 170 Tottenham Court Road W1 – this 48,000 sq ft (4,500m²) office, residential and retail refurbishment completed in July and was subsequently sold for £37.2m.

In the first half of the year we also completed six projects amounting to 91,400 sq ft (8,500m²) with an estimated rental value of £2.9m pa at 30 June 2011; over 85% has already been pre-let or let.

We expect to commence work on two further schemes in the second half of the year:

- Central Cross W1 – planning permission is expected shortly for phase one of our upgrade which includes reconfiguration of the office entrance and the creation of 21,000 sq ft (2,000m²) of ground floor offices. We also plan to refurbish office space within the building of up to 41,000 sq ft (3,800m²) in phases over the next year, subject to lease expiries. Construction work should take approximately one year with total capital expenditure of £13m.

- Morelands Buildings EC1 – a 33,000 sq ft (3,100m²) refurbishment and extension of this Clerkenwell property.

Development pipeline
Proposed projects totalling 435,000 sq ft (40,400m²) are due to commence in 2012 and additional projects amounting to some 1.7 million sq ft (157,900m²) are earmarked for 2013 onwards.

Projects due to commence in 2012:

- 132-142 Hampstead Road NW1 – we have continued to review our redevelopment options for this site which is potentially impacted by the proposed route for HS2, the high speed rail link. We have planning consent for a 265,000 sq ft (24,600m²) scheme, but have also looked at an alternative, smaller 'Tea West' scheme that would reconfigure the existing building and be based on our successful Tea Building in Shoreditch. There has been encouraging pre-let interest for both options and negotiations are on-going. The preliminary consultation period for HS2 concluded in July and a recommendation is due by the end of the year. We aim to make a decision as to the optimal strategy for this site once the outcome of the consultation has been published.

- 40 Chancery Lane WC2 – we are working closely with our freeholder on this major Midtown redevelopment, where we have planning permission for a six-storey 100,000 sq ft (9,300m²) new-build office. This £41m project is anticipated to start on site in mid-2012 with delivery in 2014.

- Turnmill EC1 – there has been a series of planning delays but we hope to receive a decision shortly for this 70,000 sq ft (6,500m²) new-build office scheme with total capex of £27m.

Projects due to commence from 2013 onwards:

- 80 Charlotte Street W1 – in May, despite planning officer recommendation, the London Borough of Camden refused permission for this 367,000 sq ft (34,100m²) mixed-use scheme in Fitzrovia. However, the Mayor of London has the ability to take over planning applications considered to be of wider strategic importance to the capital. In June, the Mayor exercised this power and 'called in' the application, citing the contribution this redevelopment would make to the competitiveness of London's wider economy. The plans will now be scrutinised by him before a final decision is made in September. The scheme includes 336,000 sq ft (31,200m²) of office, residential and retail space at 80 Charlotte Street and 31,000 sq ft (2,900m²) of residential at nearby 65 Whitfield Street and 1-8 Whitfield Place. The occupational lease on this property runs to 2013.

- 1-5 Grosvenor Place SW1 – discussions continue with the freeholder, the Grosvenor Estate, on the future of this prime Belgravia holding that occupies 1.5 acres at Hyde Park Corner where we are considering a mixed-use scheme. The existing buildings total 168,000 sq ft (15,600m²) and there is potential to increase the floor area by more than 50%. The occupational leases allow for a redevelopment that could commence in 2014.

- Riverwalk House, 157-166 Millbank SW1 – we have now completed design studies for a major high-grade residential scheme at this unique riverside location in Victoria. A planning application will be submitted shortly for a 121 unit 148,000 sq ft (13,700m²) building. Vacant possession has recently been obtained and we are in advanced negotiations to sell the site, subject to obtaining planning permission and participating in the scheme by way of a profit overage.

- 1 Oxford Street W1 – we expect to submit a planning application shortly, in collaboration with Crossrail Limited, for a mixed-use scheme totalling some 277,000 sq ft (25,700m²). This project will be located above the Tottenham Court Road station and we have an option to acquire the site after completion of the Crossrail and London Underground works. This is estimated to be around 2017.

- City Road Estate EC1 – a planning decision for this 285,000 sq ft (26,500m²) development is due shortly. This is an office-led regeneration that includes a new 16-storey office building incorporating our White Collar Factory concept and represents an uplift of 161,000 sq ft (15,000m²) over the existing buildings.

Acquisitions

We continue to appraise buying opportunities across central London. As previously announced, we concluded two off-market acquisitions totalling £76.0m before costs in the first half of the year:

- 1 Page Street SW1 – located close to our successful Horseferry House project in Victoria and acquired for £45.0m before costs in the first quarter with vacant possession. We have subsequently commenced a major refurbishment.

- Network Building, 95-100 Tottenham Court Road W1 – we purchased the headlease for £31.0m before costs in the second quarter. The Group already owned the freehold of this 64,000 sq ft (5,900m²) multi-let office and retail building in Fitzrovia and the acquisition will add £2.1m to the portfolio's annual rent.

Additionally, in June we purchased an 18,300 sq ft (1,700m²) office building at 423-425 Caledonian Road N7 for £5.6m before costs at a net initial yield of 5.9%. It adjoins an existing holding, Balmoral Grove Buildings, where we are formulating a residential planning permission. As discussed in the asset management section, we also regeared the headlease of the Morelands Buildings EC1 for £5.8m before costs.

Disposals

We look to recycle capital through the selective disposal of mature or smaller assets. Since the year end we have completed several disposals which are detailed below. These sales amounted to £127.2m before costs and gave rise to an overall surplus of approximately £33.5m, which was 37% above the December 2010 valuation.

Completed in the first half:

- Covent Garden Estate WC2 – as announced in May, five freehold properties located in King Street, Floral Street and Rose Street, were sold for £68.0m before costs reflecting a purchaser's net initial yield of 3.5%. The estate comprised 71,900 sq ft (6,700m²) of office, retail and residential accommodation with 10 tenants producing income of £2.5m pa.

- 79-89 Pentonville Road N1 – this low-income 35,600 sq ft (3,300m²) property, currently used for self-storage units, was sold in June for £11.0m before costs.

Completed in the second half:

- Victory House, 170 Tottenham Court Road W1 – as announced in May, we agreed to sell this 48,000 sq ft (4,500m²) mixed-used property for £37.2m. Completion took place in July following an extensive refurbishment.

- 18-30 Leonard Street EC2 – in July, we sold a long leasehold interest of this cleared site for £11.0m. Located just off the Old Street roundabout, to the rear of our Oliver's Yard property, the site has planning permission for 47 residential units totalling 35,000 sq ft (3,200m²) and 20,000 sq ft (1,900m²) of offices.

Awards

We are delighted that the Angel Building has been shortlisted for the prestigious RIBA Stirling Prize 2011, having won a RIBA London Award 2011. This is truly an accolade, especially as this appears to be the first time a development initiated by a property company has been shortlisted. Furthermore, this reflects increasing recognition of the importance in the workplace of innovative refurbishment which has always been a key element of our projects. The Angel Building has also been awarded the BCO London and South East Refurbished/Recycled Workplace Award 2011 and was a joint winner of the Working category at the 2011 New London Architecture awards.

We are also pleased that our Fitzroy+Maple development won a RIBA London Award 2011 and won its category at the 2011 New London Architecture awards.

Results

Fuelled principally by rental and ERV growth, a strong letting performance and some profitable disposals, the Group's EPRA adjusted net asset value per share increased during the first half of 2011 by 10.0% to 1,621p on a diluted basis. This represents a 19.5% increase over the last 12 months and a 64.2% recovery in net asset value over the two years since June 2009.

The disposals, which comprised low-yielding properties in Covent Garden and Pentonville Road, gave rise to a profit of £21.5m or 38% over December 2010 book values. In addition, Victory House and a site in Leonard Street were sold in July 2011 resulting in a profit of approximately £12.0m which will be recognised in the second half of the year. At the half year, these properties were revalued and transferred to 'assets held for sale' as required by IFRS 5. Acquisitions in the first half totalled £91.6m made up mainly of £47.1m at 1 Page Street, £32.3m at the Network Building, a property at Caledonian Road, and a new headlease at the Morelands Buildings. The revaluation surplus for the half year to 30 June 2011 has added £118.5m and brings the fair value of the property portfolio to £2.6bn. It should be noted that the portion of 25 Savile Row that is occupied as our head office has been reclassified as 'property, plant and equipment' and the comparatives have been restated accordingly. Revaluation movements on the owner-occupied part of the building are now being taken through the statement of comprehensive income and not on the face of the income statement.

The Group's leasing successes and property acquisitions since June 2010 have driven gross property income to £62.5m from £57.4m a year earlier. Of this increase, £4.9m arises from acquisitions and £5.2m from lettings and rent reviews. The balance relates mainly to lease breaks or expiries, the latter including properties that are now being refurbished or developed. Due to surrender premiums paid of £2.0m and the effect of higher voids in the period while we let the Angel Building, net property income increased by a lower proportion but, at £57.8m, was 5.3% up from £54.9m a year earlier. The like-for-like increase in gross rental income was 2.4% compared to the first half of 2010 and 2.2% compared to the second half.

Administrative expenses and net finance costs both increased compared to the first half of 2010 but the former were almost identical to the equivalent figure in the second half of last year. Finance costs reflect higher net borrowings during the period offset by slightly lower average borrowing costs and a modest amount of interest capitalised as our accounting policy changed from the beginning of this year. In the first half of 2011, £0.8m of interest was capitalised and it is expected that this amount will increase as project expenditure rises.

EPRA profit before taxation, which excludes the impact of the £21.5m profit on disposal of investment properties but which has continued to benefit from £1.4m of rates credits during the period, increased to £26.6m from £26.3m in the first half of 2010. The profit before tax, which includes asset and derivative revaluation movements as well as the profit on disposals, was £173.3m for the first six months of 2011 compared to £214.1m in the equivalent period in 2010. This is principally because investment property revaluation gains in the first half of 2010 were £80.2m higher than in the six months ended 30 June 2011, offset to some extent by a reversal of £18.7m in the movement in interest rate hedging fair values.

Issue of convertible bond

In May 2011, Derwent London became the first UK REIT to launch a convertible bond. The issue was well received, closed in June 2011 and raised £175m before costs. This unsecured instrument pays a coupon of 2.75% until July 2016 and the initial conversion price was set at £22.22 per share. This was equivalent to a 30% premium to the share price on the date of issue and was almost exactly 50% above the Group net asset value as at 31 December 2010. We were attracted to this form of finance due to the flexibility offered by its unsecured nature and its relative pricing.

IFRS requires that the equity and debt components of the bond are accounted for separately and, as a result, £161.0m net of costs has been recognised as a liability in the balance sheet at 30 June 2011 and £9.4m has been credited to reserves. The liability is discounted and the discount amortises through the income statement from the date of issue. Bond issue costs of £4.8m have been allocated between equity and debt and costs in relation to the debt component are also being amortised over the life of the bond.

Borrowings and cash flow

Though net debt at 30 June 2011 increased slightly to £904.5m from £887.8m six months earlier, the proceeds from the convertible bond issue have provided the Group with additional headroom to fund acquisitions and developments. The Group's undrawn available bank facilities increased to £402m at 30 June 2011 from £245m at 31 December 2010 and the level of uncharged property increased to £541m from £484m at the year end. Following completion of the property disposals in July referred to above, the Group's undrawn available facilities increased to over £450m.

The net proceeds of the convertible bond were initially used to repay floating rate borrowings and, as a result of this and a new interest rate hedge entered into in January 2011, the Group's proportion of fixed rate or hedged debt increased to 94% by 30 June 2011 from 70% at the year end. Though the coupon on the bond is low, the rate payable on floating rate facilities is lower still and so there has been a small increase in the weighted average cost of debt to a spot rate of 4.66% at 30 June 2011 from 4.34% at 31 December 2010. The equivalent weighted average cost at 30 June 2010 was 4.92%. The figure quoted at 30 June 2011 takes no account of the IFRS accounting adjustments that effectively increase the coupon payable on the bond above the cash level and, if that adjustment is taken into account, the weighted average cost of debt increases to 4.90%.

After a few months of relative calm, the global financial markets have recently become very unsettled by renewed sovereign debt concerns, the debate over the US budget and concern that the weak global economic recovery is losing momentum. A flight to safety has pushed gilt and lower-risk bond yields down and has also encouraged UK interest rate swap rates close to all-time lows since the end of June. That weakness was not yet apparent in the first six months of 2011 during which the Group experienced a mark-to-market gain of £7.8m in relation to its derivative financial instruments. However, the gain has more than reversed so far in the second half.

In June 2011, we signed an extension to one of the Group's bilateral revolving credit facilities taking its term out to April 2015. There was no reduction in the facility amount of £100m but there is an immediate margin increase of 50bp and the margin steps up again to 175bp in April 2012. An unsecured £32.5m facility falling due in June 2012 that was arranged as part of the acquisition arrangements for the London Merchant Securities transaction in 2007 will not be renewed as we consider the Group has sufficient alternative facilities. In relation to the two facilities totalling £475m that fall due for repayment in 2013, discussions are underway with a number of banks and other potential lenders and are progressing well. There is strong interest both from existing lending relationships and prospective new lenders.

Net cash from operating activities increased to £21.5m for the first half of 2011 from £19.5m a year earlier. Cash invested in acquisitions and capital expenditure increased to £107.0m for the period from £30.9m for the corresponding period in 2010. However, this was partially offset by property disposal proceeds of £79.0m so the net cash used in investing activities for the half year was relatively low at £28.9m against £31.7m in 2010. With the modest increase in net debt and the increase in property values outlined earlier, gearing levels have fallen during the period. The Group's loan to value ratio was 34.2% at 30 June 2011, down from 35.7% at December 2010 and only slightly higher than the 33.8% in June 2010. Interest cover has remained strong at 312% compared to 320% in the first half of 2010. If capitalised interest is ignored, interest cover for the first half of 2011 reduces slightly but remains substantial at 302%.

Derwent London's financial position remains strong and we have therefore increased the interim dividend by 8% to 9.45p per share from 8.75p per share last year. At this level the dividend remains well covered.

Responsibility statement

The Directors confirm to the best of their knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the UK Financial Services Authority.

The business review refers to important events which have taken place in the period.

The principal risks and uncertainties facing the business are discussed in note 22.

A list of the current Directors is maintained on the Derwent London plc website: www.derwentlondon.com.

On behalf of the board

J.D. Burns
Chief Executive Officer
24 August 2011

D.M.A. Wisniewski
Finance Director

GROUP CONDENSED INCOME STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.2011 £m**	Half year to 30.06.2010 Restated £m	Year to 31.12.2010 Restated £m
Gross property income	4	**62.5**	57.4	119.4
Other income		**1.0**	1.1	1.7
Total income		**63.5**	58.5	121.1
Property outgoings		**(5.7)**	(3.6)	(8.1)
Net property income		**57.8**	54.9	113.0
Administrative expenses		**(11.0)**	(10.0)	(21.0)
Movement in valuation of cash-settled share options		**(0.2)**	0.5	0.1
Total administrative expenses		**(11.2)**	(9.5)	(20.9)
Revaluation surplus		**117.3**	197.5	298.1
Profit on disposal of investment properties	5	**21.5**	-	0.9
Profit from operations		**185.4**	242.9	391.1
Finance income		**0.5**	0.6	1.9
Foreign exchange gain		**0.2**	-	-
Total finance income	6	**0.7**	0.6	1.9
Finance costs		**(21.5)**	(19.4)	(39.6)
Foreign exchange loss		**-**	(0.4)	(0.2)
Total finance costs	6	**(21.5)**	(19.8)	(39.8)
Movement in fair value of derivative financial instruments		**7.8**	(10.9)	(2.4)
Share of results of joint ventures	7	**0.9**	1.3	2.0
Profit before tax		**173.3**	214.1	352.8
Tax credit/(charge)	8	**0.5**	(0.9)	-
Profit for the period		**173.8**	213.2	352.8
Attributable to:				
- Equity shareholders		**169.3**	208.3	343.6
- Minority interest		**4.5**	4.9	9.2
		173.8	213.2	352.8
Earnings per share	9	**167.26p**	206.00p	339.68p
Diluted earnings per share	9	**164.68p**	204.65p	337.47p

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	**Half year to 30.06.2011**	Half year to 30.06.2010 Restated	Year to 31.12.2010 Restated
		£m	£m	£m
Profit for the period		**173.8**	213.2	352.8
Actuarial losses on defined benefit pension scheme		**(0.6)**	(1.4)	(0.4)
Revaluation surplus of owner-occupied property		**1.2**	2.3	3.6
Deferred tax on revaluation surplus	8	**(0.2)**	(0.7)	(1.0)
Foreign currency translation		**(0.2)**	0.4	0.2
Other comprehensive income		**0.2**	0.6	2.4
Total comprehensive income relating to the period		**174.0**	213.8	355.2
Attributable to:				
- Equity shareholders		**169.5**	208.9	346.0
- Minority interest		**4.5**	4.9	9.2
		174.0	213.8	355.2

GROUP CONDENSED BALANCE SHEET (UNAUDITED)

	Note	**30.06.2011 £m**	30.06.2010 Restated £m	31.12.2010 Restated £m
Non-current assets				
Investment property	1, 10	**2,496.5**	2,105.0	2,373.3
Property, plant and equipment	1, 11	**17.9**	15.4	16.7
Investments		**9.2**	7.7	8.4
Pension scheme surplus		**0.2**	-	0.7
Other receivables	12	**50.2**	40.1	45.8
		2,574.0	2,168.2	2,444.9
Current assets				
Trading properties		**-**	1.0	-
Trade and other receivables	13	**45.6**	33.4	37.7
Cash and cash equivalents		**7.3**	3.4	7.2
		52.9	37.8	44.9
Non-current assets held for sale	10	**45.4**	-	-
		98.3	37.8	44.9
Total assets		**2,672.3**	2,206.0	2,489.8
Current liabilities				
Bank overdraft	15	**7.5**	2.7	5.6
Borrowings	15	**32.5**	-	-
Trade and other payables	14	**70.4**	46.4	63.4
Corporation tax liability		**2.7**	3.4	3.3
Derivative financial instruments	15	**-**	0.6	-
Provisions		**2.3**	0.3	0.3
		115.4	53.4	72.6
Non-current liabilities				
Borrowings	15	**871.8**	749.9	889.4
Derivative financial instruments	15	**17.6**	33.3	25.4
Provisions		**0.5**	1.3	1.8
Pension scheme deficit		**-**	0.4	-
Deferred tax liability	16	**5.6**	7.0	5.9
		895.5	791.9	922.5
Total liabilities		**1,010.9**	845.3	995.1
Total net assets		**1,661.4**	1,360.7	1,494.7
Equity				
Share capital		**5.0**	5.0	5.0
Share premium		**158.2**	158.0	158.2
Other reserves		**933.6**	922.1	924.0
Retained earnings		**514.3**	234.0	361.6
Equity shareholders’ funds		**1,611.1**	1,319.1	1,448.8
Minority interest		**50.3**	41.6	45.9
Total equity		**1,661.4**	1,360.7	1,494.7

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2011	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7
Total comprehensive income for the period	-	-	0.8	168.7	169.5	4.5	174.0
Share-based payments expense transferred to reserves	-	-	1.5	-	1.5	-	1.5
Transfer between reserves in respect of share-based payments	-	-	(2.1)	2.1	-	-	-
Issue of convertible bonds	-	-	9.4	-	9.4	-	9.4
Premium on issue of shares	-	2.4	-	-	2.4	-	2.4
Dividends paid	-	-	-	(20.5)	(20.5)	(0.1)	(20.6)
Scrip element of dividends	-	(2.4)	-	2.4	-	-	-
At 30 June 2011	**5.0**	**158.2**	**933.6**	**514.3**	**1,611.1**	**50.3**	**1,661.4**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2010 *	5.0	156.9	920.1	45.2	1,127.2	36.7	1,163.9
Total comprehensive income for the period *	-	-	2.0	206.9	208.9	4.9	213.8
Share-based payments expense transferred to reserves	-	-	1.0	-	1.0	-	1.0
Transfer between reserves in respect of share-based payments	-	-	(1.0)	1.0	-	-	-
Premium on issue of shares	-	1.1	-	-	1.1	-	1.1
Dividends paid	-	-	-	(19.1)	(19.1)	-	(19.1)
At 30 June 2010	5.0	158.0	922.1	234.0	1,319.1	41.6	1,360.7

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2010 *	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 share-based payments	-	-	(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	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7

* Other reserves and retained earnings at 1 January 2010 and total comprehensive income for the half year to 30 June 2010 and the year to 31 December 2010 have been restated for the accounting policy changes set out in note 1.

GROUP CONDENSED CASH FLOW STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.2011 £m**	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Operating activities				
Cash received from tenants		**61.2**	59.0	117.1
Direct property expenses		**(5.7)**	(5.3)	(9.8)
Cash paid to and on behalf of employees		**(10.5)**	(7.3)	(13.7)
Other administrative expenses		**(3.0)**	(4.1)	(5.7)
Interest received		**-**	0.1	0.1
Interest paid		**(19.8)**	(20.7)	(38.8)
Other finance costs		**(0.8)**	-	(1.8)
Other income		**0.8**	0.6	2.1
Tax paid in respect of operating activities		**(0.7)**	(2.8)	(3.0)
Net cash from operating activities		**21.5**	19.5	46.5
Investing activities				
Acquisition of investment properties		**(91.3)**	(1.3)	(148.0)
Capital expenditure on investment properties		**(15.7)**	(29.6)	(49.5)
Disposal of investment properties		**79.0**	0.3	8.5
Purchase of property, plant and equipment		**(0.1)**	(0.1)	(0.4)
Disposal of property, plant and equipment		**-**	-	0.1
Advances to minority interest holder		**(0.8)**	(1.0)	(1.0)
Net cash used in investing activities		**(28.9)**	(31.7)	(190.3)
Financing activities				
Net proceeds from convertible bond issue		**170.6**	-	-
Repayment of revolving bank loan		**-**	-	(94.2)
Drawdown of new revolving bank loan		**-**	-	60.0
Net movement in other revolving bank loans		**(216.0)**	16.0	193.0
Drawdown of non-revolving bank loans		**67.3**	-	0.3
Net proceeds of share issues		**-**	1.1	1.3
Repayment of loan notes		**-**	-	(0.3)
Dividends paid	17	**(16.3)**	(17.3)	(27.8)
Net cash from/(used in) financing activities		**5.6**	(0.2)	132.3
Decrease in cash and cash equivalents in the period		**(1.8)**	(12.4)	(11.5)
Cash and cash equivalents at the beginning of the period		**1.6**	13.1	13.1
Cash and cash equivalents at the end of the period	20	**(0.2)**	0.7	1.6

NOTES TO THE FINANCIAL STATEMENTS

1. **Basis of preparation**

The financial information for the half years ended 30 June 2011 and 30 June 2010 have neither been subject to an audit nor a review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. The comparative financial information presented herein for the year ended 31 December 2010 does not constitute full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's annual report and accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information in these condensed financial statements is that of the holding company and all of its subsidiaries (the "Group") together with the Group's share of its joint ventures. It has been prepared in accordance with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual report and accounts for the year ended 31 December 2010 which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The accounting policies applied by the Group in these condensed financial statements are the same as those applied by the Group in its financial statements for the year ended 31 December 2010 with the exception of the new standards adopted during 2011 and the accounting policy changes outlined below which will form the basis of the 2011 financial statements.

The following standards and guidelines relevant to the Group were in issue at the date of approval of the condensed consolidated financial statements but were not yet effective for the current accounting period and have not been adopted early:

IFRS 1 First-time Adoption of International Financial Reporting Standards (amendment)
IFRS 7 Financial Instruments: Disclosures (amendment)
IAS 12 Income Taxes (amendment)
IAS 1 Presentation of Financial Statements (amendment)
IFRS 9 Financial Instruments
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures
IAS 19 Employee Benefits

During the half year to 30 June 2011, the following accounting standards and guidance were adopted by the Group:

IAS 24 Related Party Disclosures (revised)
IAS 32 Financial Instruments: Presentation (amendment)
IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
Amendments arising from the 2010 annual improvements project

These pronouncements either had no impact on the condensed consolidated financial statements or resulted in changes to presentation and disclosure only.

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

- 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 loan notes based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. Issue costs apportioned to the liability are amortised over the life of the bond.

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

- In accordance with IAS 23, Borrowing Costs, interest has been capitalised on projects. The Group capitalises interest on development expenditure at the average cost of borrowings during the period. In the half year to 30 June 2011 the Group capitalised £0.8m. Had the Group adopted this policy from 1 January 2010, £0.1m would have been capitalised during the half year to 30 June 2010 and £0.2m in the year to 31 December 2010. Due to the immaterial amounts involved, the comparative figures have not been restated for this accounting policy change.

- The Group occupies a portion of one of its properties. Due to increased 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 has now been depreciated, in a similar way to other tangible fixed assets, over its remaining useful life and the depreciation been included in administrative expenses. The respective revaluation movement and associated deferred tax is now 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	
	30.06.2010	31.12.2010	30.06.2010	31.12.2010	30.06.2010	31.12.2010
	£m	£m	£m	£m	£m	£m
Income statement						
Administrative expenses *	(10.0)	(21.0)	(10.0)	(20.9)	-	(0.1)
Revaluation surplus	197.5	298.1	199.8	301.6	(2.3)	(3.5)
Tax credit/(charge)	(0.9)	-	(1.6)	(1.0)	0.7	1.0
Profit for the period	213.2	352.8	214.8	355.4	(1.6)	(2.6)
Total comprehensive income in the period **	0.6	2.4	(1.0)	(0.2)	1.6	2.6
Overall impact on total comprehensive income					-	-
Basic earnings per share (p)	206.00	339.68	207.58	342.25	(1.58)	(2.57)
Diluted earnings per share (p)	204.65	337.47	206.22	340.03	(1.57)	(2.56)
Balance Sheet						
Investment property	2,105.0	2,373.3	2,119.0	2,388.5	(14.0)	(15.2)
Property, plant and equipment	15.4	16.7	1.4	1.5	14.0	15.2
	2,120.4	2,390.0	2,120.4	2,390.0	-	-
Other reserves at 01.01.2010 ***	920.1	920.1	916.8	916.8	3.3	3.3
Retained earnings at 01.01.2010 ***	45.2	45.2	48.5	48.5	(3.3)	(3.3)
					-	-

* Restatement due to the depreciation charge on the owner-occupied portion of the investment property.

** Represents the revaluation surplus, net of deferred tax, for the owner-occupied portion of the investment property, previously reported in the income statement.

*** 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.

2. Significant judgments, key assumptions and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements. These are the same policies identified at the previous year end and a full discussion of these policies is included in the 2010 financial statements.

- Trade receivables
- Exceptional items
- Investment property valuation
- Outstanding rent reviews
- Compliance with the real estate investment trust (REIT) taxation regime

3. Segmental reporting

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 9. 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* by value (30 June 2010: 91%; 31 December 2010: 90%). The Directors consider that these properties have similar types of tenants, they demonstrate similar long-term financial performance and have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 8% (30 June 2010: 9%; 31 December 2010: 10%) represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

* Note: some office buildings have an ancillary element such as retail or residential.

Property portfolio (see note 10)

	Carrying value		
	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Office buildings	**2,347.1**	1,924.0	2,173.8
Other	**211.2**	195.0	214.7
	2,558.3	2,119.0	2,388.5

	Fair value		
	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Office buildings	**2,384.5**	1,952.8	2,205.8
Other	**215.7**	197.4	220.3
	2,600.2	2,150.2	2,426.1

Gross property income

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Office buildings	**57.0**	52.6	109.2
Other	**5.5**	4.8	10.2
	62.5	57.4	119.4

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 (30 June 2010: 0.2%; 31 December 2010: 0.2%). 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.

Property portfolio

	Carrying value		
	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
West End central	**1,775.1**	1,446.6	1,662.6
West End borders	**198.3**	153.1	174.5
City borders	**475.5**	419.9	443.3
Provincial	**109.4**	99.4	108.1
	2,558.3	2,119.0	2,388.5

	Fair value		
	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
West End central	**1,793.9**	1,462.3	1,679.7
West End borders	**205.3**	153.6	178.2
City borders	**487.3**	432.8	456.1
Provincial	**113.7**	101.5	112.1
	2,600.2	2,150.2	2,426.1

Gross property income

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
West End central	**42.0**	37.3	82.6
West End borders	**4.0**	3.1	7.3
City borders	**13.4**	14.4	23.9
Provincial	**3.1**	2.6	5.6
	62.5	57.4	119.4

4. Gross property income

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Rental income	**62.1**	57.1	118.7
Surrender premiums	**0.4**	0.3	0.7
Gross property income	**62.5**	57.4	119.4

Included within rental income is £0.6m (30 June 2010: £1.0m; 31 December 2010: £1.0m) of income which was derived from a lease of one of its buildings where the Group entered into an arrangement 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).

5. Profit on disposal of investment properties

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Net disposal proceeds	**78.5**	0.2	1.1
Carrying value	**(56.7)**	(0.2)	(0.2)
Adjustment for rents recognised in advance	**(0.3)**	-	-
	21.5	-	0.9

6. Finance income and costs

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Finance income			
Return on pension plan assets	**0.4**	0.4	0.8
Other	**0.1**	0.2	1.1
	0.5	0.6	1.9
Foreign exchange gain	**0.2**	-	-
Total finance income	**0.7**	0.6	1.9

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Finance costs			
Bank loans and overdraft	**14.3**	12.2	25.4
Non-utilisation fees	**0.7**	0.9	1.4
Secured bonds	**5.7**	5.7	11.4
Unsecured convertible bonds	**0.5**	-	-
Amortisation of issue and arrangement costs	**0.8**	0.5	1.0
Amortisation of the fair value of the secured bonds	**(0.4)**	(0.4)	(0.8)
Finance lease costs	**0.2**	0.2	0.5
Pension interest costs	**0.3**	0.3	0.6
Other	**0.2**	-	0.1
Gross interest costs	**22.3**	19.4	39.6
Less: interest capitalised *	**(0.8)**	-	-
	21.5	19.4	39.6
Foreign exchange loss	**-**	0.4	0.2
Total finance costs	**21.5**	19.8	39.8

* Refer to the accounting policy changes outlined in note 1.

7. Share of results of joint ventures

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Revaluation surplus	**0.3**	0.7	0.9
Other profit from operations after tax	**0.6**	0.6	1.1
	0.9	1.3	2.0

8. Tax credit/(charge)

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Corporation tax charge			
UK corporation tax and income tax on profit for the period	**(0.3)**	(0.5)	(1.2)
Other	**0.3**	-	0.2
	-	(0.5)	(1.0)
Deferred tax credit/(charge)			
Origination and reversal of temporary differences	**-**	(0.4)	1.2
Adjustment for changes in estimates	**0.5**	-	(0.2)
	0.5	(0.4)	1.0
Total tax credit/(charge) in the income statement	**0.5**	(0.9)	-
Total tax on items taken directly to other comprehensive income	**(0.2)**	(0.7)	(1.0)
Total tax credit/(charge) in the period	**0.3**	(1.6)	(1.0)

The tax charge is lower (half year to 30 June 2010: lower; year to 31 December 2010: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Profit before tax	**173.3**	214.1	352.8
Expected tax charge based on the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	**(45.9)**	(59.9)	(98.8)
Difference between tax and accounting profit on disposals	**5.7**	-	1.6
REIT exempt income	**4.1**	4.2	8.5
Expenses and fair value adjustments not deductible/(allowable) for tax purposes	**3.9**	(1.5)	1.4
Revaluation surplus attributable to REIT properties	**30.1**	54.7	83.3
Capital allowances	**1.8**	1.6	3.4
Other	**0.3**	(0.7)	(0.6)
Tax credit/(charge) on current period's profit	**-**	(1.6)	(1.2)
Adjustments in respect of prior years' tax	**0.3**	-	0.2
	0.3	(1.6)	(1.0)

9. 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 30 June 2011 was £18.26. 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. For the period to 30 June 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 measures			Net asset value per share measures		
	Weighted average for the period ended			At period ended		
	30.06.11 '000	30.06.10 '000	31.12.10 '000	**30.06.11 '000**	30.06.10 '000	31.12.10 '000
Number of shares						
For use in basic measures	**101,218**	101,118	101,155	**101,480**	101,181	101,200
Dilutive effect of convertible bonds	**1,225**	-	-			
Dilutive effect of share-based payments	**669**	666	661	**682**	658	669
For use in diluted earnings per share	**103,112**	101,784	101,816			
Less dilutive effect of convertible bonds	**(1,225)**	-	-			
For use in other diluted measures	**101,887**	101,784	101,816	**102,162**	101,839	101,869

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for half year ended 30 June 2011		169.8		164.68
Interest effect of dilutive convertible bond		(0.5)		
Undiluted profit/earnings	173.3	169.3	167.26	
Adjustment for:				
Disposal of properties	(21.5)	(21.5)		
Group revaluation surplus	(117.3)	(117.2)		
Joint venture revaluation surplus	(0.3)	(0.3)		
Fair value movement in derivative financial instruments	(7.8)	(7.8)		
Movement in valuation of cash-settled share options	0.2	0.2		
Minority interests in respect of the above	-	3.4		
EPRA	26.6	**26.1**	**25.79**	**25.62**
Foreign exchange gain	(0.2)	(0.2)		
Rates credits	(1.4)	(1.4)		
Underlying	**25.0**	**24.5**	**24.2**	**24.0**

Half year ended 30 June 2010	214.1	208.3	206.00	204.65
Adjustment for:				
Group revaluation surplus	(197.5)	(197.0)		
Joint venture revaluation surplus	(0.7)	(0.7)		
Fair value movement in derivative financial instruments	10.9	10.9		
Movement in valuation of cash-settled share options	(0.5)	(0.5)		
Minority interests in respect of the above	-	4.0		
EPRA	26.3	25.0	24.72	24.56
Foreign exchange loss	0.4	0.4		
Rates credits	(1.1)	(1.1)		
Underlying	25.6	24.3	24.0	23.9

Year ended 31 December 2010	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	55.2	53.5	52.89	52.55
Foreign exchange loss	0.2	0.2		
Rates credits	(1.7)	(1.7)		
Underlying	53.7	52.0	51.4	51.1

	£m	Basic p	Diluted p
At 30 June 2011			
Net assets	1,661.4		
Minority interest	(50.3)		
Net assets attributable to equity shareholders	1,611.1	1,588	1,577
Adjustment for:			
Deferred tax on revaluation surplus	8.8		
Fair value of derivative financial instruments	17.4		
Fair value adjustment to secured bonds	19.0		
EPRA adjusted net asset value	**1,656.3**	**1,632**	**1,621**
Adjustment for:			
Deferred tax on revaluation surplus	(8.8)		
Fair value of derivative financial instruments	(17.4)		
Mark-to-market of unsecured bonds	(7.6)		
Mark-to-market of secured bonds	(12.3)		
EPRA triple net asset value	1,610.2	1,587	1,576

At 30 June 2010			
Net assets	1,360.7		
Minority interest	(41.6)		
Net assets attributable to equity shareholders	1,319.1	1,304	1,295
Adjustment for:			
Deferred tax on revaluation surplus	8.8		
Fair value of derivative financial instruments	33.4		
Fair value adjustment to secured bonds	19.8		
EPRA adjusted net asset value	1,381.1	1,365	1,356
Adjustment for:			
Deferred tax on revaluation surplus	(8.8)		
Fair value of derivative financial instruments	(33.4)		
Mark-to-market of secured bonds	(12.0)		
EPRA triple net asset value	1,326.9	1,311	1,303

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

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

10. Investment property

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
Carrying value						
At 1 January 2011	1,965.7	407.6	2,373.3	15.2	-	2,388.5
Acquisitions	53.1	38.5	91.6	-	-	91.6
Capital expenditure	8.9	3.1	12.0	-	3.6	15.6
Additions	62.0	41.6	103.6	-	3.6	107.2
Interest capitalisation	0.7	0.1	0.8	-	-	0.8
Disposals	(56.7)	-	(56.7)	-	-	(56.7)
Transfers	(29.8)	-	(29.8)	-	29.8	-
Revaluation	91.1	14.2	105.3	1.2	12.0	118.5
At 30 June 2011	**2,033.0**	**463.5**	**2,496.5**	**16.4**	**45.4**	**2,558.3**
At 1 January 2010	1,526.1	350.8	1,876.9	11.7	-	1,888.6
Acquisitions	1.2	-	1.2	-	-	1.2
Capital expenditure	26.2	3.4	29.6	-	-	29.6
Additions	27.4	3.4	30.8	-	-	30.8
Disposals	-	(0.2)	(0.2)	-	-	(0.2)
Revaluation	160.1	37.4	197.5	2.3	-	199.8
At 30 June 2010	1,713.6	391.4	2,105.0	14.0	-	2,119.0
At 1 January 2010	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
Transfer from trading property	1.0	-	1.0	-	-	1.0
Disposals	-	(0.2)	(0.2)	-	-	(0.2)
Depreciation	-	-	-	(0.1)	-	(0.1)
Revaluation	248.5	49.6	298.1	3.6	-	301.7
At 31 December 2010	1,965.7	407.6	2,373.3	15.2	-	2,388.5

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
At 30 June 2011						
Fair value	2,078.1	460.3	2,538.4	16.4	45.4	2,600.2
Rents recognised in advance	(45.1)	(4.2)	(49.3)	-	-	(49.3)
Grossing up of headlease liabilities	-	7.4	7.4	-	-	7.4
Carrying value	**2,033.0**	**463.5**	**2,496.5**	**16.4**	**45.4**	**2,558.3**
At 30 June 2010						
Fair value	1,749.8	386.4	2,136.2	14.0	-	2,150.2
Rents recognised in advance	(36.2)	(2.4)	(38.6)	-	-	(38.6)
Grossing up of headlease liabilities	-	7.4	7.4	-	-	7.4
Carrying value	1,713.6	391.4	2,105.0	14.0	-	2,119.0
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

The property portfolio was revalued at 30 June 2011 by external valuers on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued the properties at £2,569.2m (30 June 2010: £2,121.3m; 31 December 2010: £2,396.2m) and other valuers at £31.0m (30 June 2010: £28.9m; 31 December 2010: £29.9m). Of the properties revalued by CBRE, £16.4m (31 December 2010: £14.0m; 30 June 2010: £15.2m) relating to owner-occupied property is included within property, plant and equipment and £45.4m (30 June 2010: £nil; 31 December 2010: £nil) was included within non-current assets held for sale.

At 30 June 2011, the historical cost of the property portfolio owned by the Group was £2,144.4m (30 June 2010: £1,925.4m; 31 December 2010: £2,093.1m).

The figures for 30 June 2010 and 31 December 2010 have been restated for the change in accounting policy in respect of owner-occupied property as outlined in note 1. Also see note 1 for the accounting policy in relation to interest capitalisation.

The revaluation surplus in the income statement of £117.3m for the half year to 30 June 2011 (half year to 30 June 2010: £197.5m; year to 31 December 2010: £298.1m) included the revaluation of non-current assets held for sale of £12.0m (half year to 30 June 2010: £nil; year to 31 December 2010: £nil). The revaluation surplus for the owner-occupied property of £1.2m (half year to 30 June 2010: £2.3m; year to 31 December 2010: £3.5m) was included within reserves.

11. Property, plant and equipment

	Owner-occupied property £m	Plant and equipment £m	Total £m
At 1 January 2011	15.2	1.5	16.7
Additions	-	0.1	0.1
Depreciation	-	(0.1)	(0.1)
Revaluation	1.2	-	1.2
At 30 June 2011	**16.4**	**1.5**	**17.9**
At 1 January 2010	11.7	1.4	13.1
Additions	-	0.1	0.1
Depreciation	-	(0.1)	(0.1)
Revaluation	2.3	-	2.3
At 30 June 2010	14.0	1.4	15.4
At 1 January 2010	11.7	1.4	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	15.2	1.5	16.7
Net book value			
Cost or valuation	16.4	3.7	20.1
Accumulated depreciation	-	(2.2)	(2.2)
At 30 June 2011	**16.4**	**1.5**	**17.9**
Net book value			
Cost or valuation	14.0	3.4	17.4
Accumulated depreciation	-	(2.0)	(2.0)
At 30 June 2010	14.0	1.4	15.4

Net book value			
Cost or valuation	15.2	3.6	18.8
Accumulated depreciation	-	(2.1)	(2.1)
At 31 December 2010	15.2	1.5	16.7

12. Other receivables

	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Accrued income	**45.3**	35.8	41.3
Other	**4.9**	4.3	4.5
	50.2	40.1	45.8

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods, reduced rent periods and capital contributions in lieu of rent free periods over the term of their respective leases. At 30 June 2011, the total rents recognised in advance were £49.3m (30 June 2010: £38.6m; 31 December 2010: £45.0m), with £4.0m of this amount (30 June 2010: £2.8m; 31 December 2010: £3.7m) included within trade and other receivables.

13. Trade and other receivables

	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Trade receivables	**7.3**	6.3	7.5
Other receivables	**13.5**	5.8	10.6
Prepayments	**20.3**	13.1	14.8
Accrued income	**4.5**	8.2	4.8
	45.6	33.4	37.7

14. Trade and other payables

	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Trade payables	**4.5**	3.0	1.9
Other payables	**13.2**	0.4	10.6
Accruals	**16.7**	10.4	16.2
Deferred income	**36.0**	32.6	34.7
	70.4	46.4	63.4

15. Borrowings and derivative financial instruments

	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Current liabilities			
Bank overdraft	**7.5**	2.7	5.6
Unsecured loans	**31.4**	-	-
Loan notes	**1.1**	-	-
	40.0	2.7	5.6
Non-current liabilities			
2.75% unsecured convertible bonds 2016	**161.0**	-	-
6.5% secured bonds 2026	**192.6**	193.2	192.9
Bank loans	**515.0**	519.0	661.0
Unsecured loans	**-**	31.1	31.4
Loan notes	**-**	1.4	1.1
Leasehold liabilities	**7.4**	7.4	7.4
Unamortised loan arrangement costs	**(4.2)**	(2.2)	(4.4)
	871.8	749.9	889.4
Derivative financial instruments - expiring in less than one year	**-**	0.6	-
Derivative financial instruments - expiring in greater than one year	**17.6**	33.3	25.4
	17.6	33.9	25.4
Total	**929.4**	786.5	920.4

Reconciliation to net debt:			
Total borrowings and derivative financial instruments	**929.4**	786.5	920.4
Less:			
Derivative financial instruments	**(17.6)**	(33.9)	(25.4)
Cash and cash equivalents	**(7.3)**	(3.4)	(7.2)
Net debt	**904.5**	749.2	887.8

16. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2011	8.9	(3.0)	5.9
Provided during the period in other comprehensive income	0.2	-	0.2
Provided/(released) during the period in the income statement	0.8	(0.8)	-
Changes in tax rates	(0.7)	0.2	(0.5)
At 30 June 2011	**9.2**	**(3.6)**	**5.6**
At 1 January 2010	8.1	(2.2)	5.9
Provided during the period in other comprehensive income	0.7	-	0.7
Provided/(released) during the period in the income statement	0.5	(0.1)	0.4
At 30 June 2010	9.3	(2.3)	7.0
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 period in the income statement	0.1	(0.9)	(0.8)
Changes in tax rates	(0.3)	0.1	(0.2)
At 31 December 2010	8.9	(3.0)	5.9

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.

17. Dividend

	Payment date	Dividend per share p	**Half year to 30.06.2011 £m**	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Current period					
2011 interim dividend	4 November 2011	9.45	**-**	**-**	**-**
Distribution of current period profit		9.45			
Prior period					
2010 interim dividend	5 November 2010	8.75	**-**	-	8.8
Distribution of current period profit		8.75	**-**	-	8.8
Prior year					
2010 final dividend	16 June 2011	20.25	**20.5**	-	-
Distribution of prior year profit		29.00	**20.5**	-	-
2009 final dividend	17 June 2010	18.85	**-**	19.1	19.1
Dividends as reported in the statement of changes in equity			**20.5**	19.1	27.9
2010 final dividend - scrip element	16 June 2011		**(2.4)**	-	-
2010 final dividend withholding tax	14 July 2011		**(3.2)**	-	-
2010 interim dividend withholding tax	14 January 2011		**1.4**	-	(1.4)
2009 final dividend withholding tax	14 July 2010		-	(3.1)	-
2009 interim dividend withholding tax	14 January 2010		**-**	1.3	1.3
Dividends paid as reported in the cash flow statement			**16.3**	17.3	27.8

18. Gearing ratios

Balance sheet gearing

	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Net debt	**904.5**	749.2	887.8
Net assets	**1,661.4**	1,360.7	1,494.7
Balance sheet gearing	**54.4%**	55.1%	59.4%

Loan to value ratio

	30.06.2011 £m	30.06.2010 £m	31.12.2010 £m
Net debt	**904.5**	749.2	887.8
Unamortised issue costs and fair value adjustment of secured bonds	**(19.0)**	(19.8)	(19.4)
Unamortised issue and arrangement costs	**10.1**	3.8	5.9
Leasehold liabilities	**(7.4)**	(7.4)	(7.4)
Drawn facilities	**888.2**	725.8	866.9
Fair value of property portfolio	**2,600.2**	2,150.2	2,426.1
Loan to value ratio	**34.2%**	33.8%	35.7%

Interest cover ratio

	Half year to 30.06.2011 £m	Half year to 30.06.2010 £m	Year to 31.12.2010 £m
Gross property income	**62.5**	57.4	119.4
Surrender premiums	**(0.4)**	(0.3)	(0.7)
Ground rent	**(0.4)**	(0.4)	(0.8)
Gross rental income net of ground rent	**61.7**	56.7	117.9
Net finance costs	**20.8**	19.2	37.9
Foreign exchange gain/(loss)	**0.2**	(0.4)	(0.2)
Net pension return	**0.1**	0.1	0.3
Finance lease costs	**(0.2)**	(0.2)	(0.5)
Amortisation of fair value adjustment to secured bonds	**0.4**	0.4	0.8
Amortisation of issue and arrangement costs	**(0.8)**	(0.5)	(1.0)
Non-utilisation fees	**(0.7)**	(0.9)	(1.4)
Net interest payable	**19.8**	17.7	35.9
Interest cover ratio	**312%**	320%	328%

19. Total return

	30.06.2011	30.06.2010	31.12.2010
	%	%	%
Total return	**11.2**	18.4	29.3

20. Cash and cash equivalents

	30.06.2011	30.06.2010	31.12.2010
	£m	£m	£m
Bank overdraft	**(7.5)**	(2.7)	(5.6)
Short-term deposits	**7.3**	3.4	7.2
	(0.2)	0.7	1.6

21. Post balance sheet events

Since 30 June 2011, the Group has exchanged contracts for the disposal of two freehold properties for £37.2m and £11.0m respectively before costs. These transactions are estimated to result in a profit before tax of approximately £12.0m based on December 2010 carrying values.

22. Risk management and internal control

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

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

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

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

Strategic risks

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

Risk	Mitigation	Action
• The Group's strategy is inconsistent with the market environment. • The Group's development programme is not consistent with the economic cycle.	• Each year the Group carries out a five-year strategic review and in addition it prepares regular rolling forecasts covering the next two years. In the course of both exercises the Board considers the effect on key ratios of changing the main underlying assumptions. These can then be set so as to best realise the Group's long-term strategic goals given the prevailing economic and market conditions. This flexibility arises from the policy of maintaining income from properties until development commences.	• The Board carried out its latest annual five-year strategic review in June 2011 and considered the sensitivity of five key measures to changes in eight underlying assumptions including interest rates, property yields, rental growth, capital recycling and letting success. • The three rolling forecasts prepared during the year since June 2010 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.

Financial risks

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

Risk	Mitigation	Action
• A substantial decline in property values or a material loss of rental income results in a breach of the Group's financial covenants. This may accelerate the repayment of the Group's borrowings or result in their cancellation.	• The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as balance sheet gearing. Treasury control schedules are updated weekly whilst the rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken. The Group has a considerable amount of uncharged property that could be used in such circumstances.	• The Group tested its compliance regularly and operated comfortably within its financial covenants throughout the period. • At 30 June 2011 the Group owned £541m of uncharged properties.
• The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources.	• The Group's five-year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This allows sources of finance to be identified and evaluated and, to a degree, the finance to be raised when market conditions are favourable.	• The Group's financing comes from a number of different providers and has a varied maturity profile. • In June 2011 the Group issued a £175m convertible bond on attractive terms available in the market at that time. • During 2011 the opportunity was taken to add two years to the term of a loan which had been due to expire in 2013. • The weighted average duration of

		the Group's debt is 4.9 years. • At the period end the Group had £402m of unutilised available 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.	• 94% of borrowings are now fixed or hedged. • The weighted average cost of drawn debt at the period end was 4.66% compared to 4.34% at year-end.

Operational risks

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

Risk	Mitigation	Action
• The implementation of the Group's strategy is inhibited by an inability to acquire assets at an attractive price.	• The size of the Central London market in which the Group operates, means that such a situation is unlikely to persist for very long. During this time, the Group is able to develop opportunities from within its existing portfolio.	• The acquisition of Page Street and the Network Building demonstrates the Group's ability to identify and acquire properties with opportunities to add value. • Over 50% of the Group's portfolio has been identified as having future redevelopment potential.
• The Group's development projects do not produce the anticipated financial return due to delays in the planning process, increased construction costs or adverse letting conditions.	• Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group's development programme is managed to reflect anticipated market conditions.	• The Group is advised by top planning consultants and has considerable in-house planning expertise. • The Group is represented by employees on a number of local bodies which ensures that it remains aware of local issues. • The procurement process used by the Group is designed to minimise uncertainty regarding costs. • The Group's style of accommodation remains in demand as evidenced by the 51 lettings achieved in the period and the 12 already made since 30 June 2011.
• The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt.	• Prospective tenants are considered by the Group's credit committee and security is taken where appropriate. The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.	• The Group has a diversified tenant base. • The credit committee meets each week. • In total the Group holds rental deposits amounting to £10.8m.
• The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	• The remuneration packages of all employees are benchmarked regularly. Six-monthly appraisals identify training requirements which are fulfilled over the next year.	• The Group recruited three new members of staff during the period. • Staff turnover in the six months to June 2011 was 2.8%.

23. 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 period 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. The EPRA guidelines include guidance for the calculations of the following performance measures:

- Adjusted net asset value per share;
- Adjusted earnings per share;
- Net initial yield;
- "Topped up" net initial yield; and
- Vacancy rate.

Derwent London has adopted the EPRA methodology for all of these measures. In 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. Currently these adjustments are for rates credits and the foreign exchange movement (see note 9).

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 adjusted net asset value per share between the beginning and the end of each financial period plus the dividend per share paid during the period expressed as a percentage of the adjusted net asset value per share at the beginning of the year.

Total property return

The annual capital appreciation, net of capital expenditure, plus the net annual rental income received, expressed as a percentage of capital employed (property value at the beginning of the year plus capital expenditure).

Total shareholder return

The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the period, expressed as a percentage of the share price at the beginning of the year.

Rent roll

The annualised contracted rental income, net of ground rents.

True equivalent yield

The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimate rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Assumes rent is received quarterly in advance.

Reversion

The reversion is the 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 and. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

Underlying portfolio

Properties that have been held for the whole of the financial period.

24. Copies of this announcement will be available on the company's website, www.derwentlondon.com, from the date of this statement. Copies will also be available from the Company Secretary, Derwent London plc, 25 Savile Row, London, W1S 2ER.