Derwent London plc
Report & Accounts 2008

Derwent London

Derwent London is a real estate investment trust focused on London's West End and other emerging parts of the capital where future value has been identified.

The board's objective is to deliver an above average annualised total return to shareholders by implementing its strategy of adding value to the group's properties through creative planning, innovative design and enterprising lease management.

Derwent London has developed a strong reputation for anticipating the locations of tomorrow, and contributing to London's regeneration by creating quality working environments for its tenants.

Cover
Arup headquarters, Fitzroy Street, Fitzrovia

The portfolio outperformed the IPD Central London Offices Index total return of -23.5% with an annual property return of -18.9%

45,300m² of space let in 2008, which will generate rental income of £16.3m p.a. Additionally, a further 9,700m² of space has been let or placed under offer since the year end

Developments completed at Horseferry House and Arup Phase II totalling 20,500m² – both fully pre-let

Vacancy rate reduced from 4.5% to 3.8% at the year end

Gross property income rose 6.5% to £119.0m mainly due to 2008 letting activity

Recurring profit for the year of £23.3m after charging £8.3m reverse surrender premium and £8.3m foreign exchange translation movement

£72.6m of disposals at £1.2m above book value

Dividend for the year increased by 8.9% to 24.5p

Three bank facilities renewed in the last 12 months, totalling £253m – no further maturities until December 2011

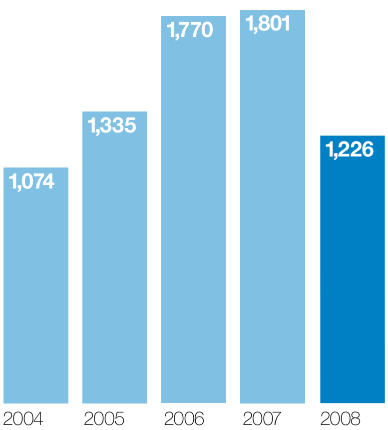
Group loan to value ratio remains low at 39.7%

Burberry headquarters, Horseferry House, Victoria

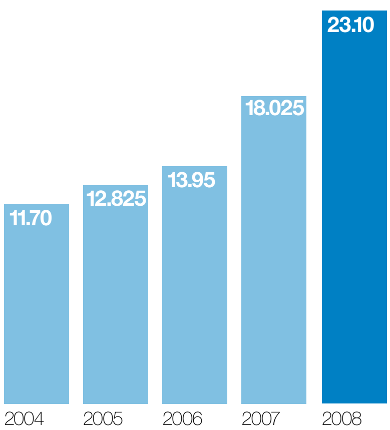
	2008	2007	Increase/ (decrease) %
Recurring net property income	**£95.0m**	£101.8m	(6.7)
Recurring profit before tax	**£23.3m**	£38.0m	(38.7)
Loss before tax	**£(606.5)m**	£(99.8)m	(507.7)
Recurring earnings per share	**22.83p**	35.14p	(35.0)
(Loss)/earnings per share	**(581.99)p**	100.55p	n/a
Dividend per share			
Distribution of years' earnings	**24.50p**	22.50p	8.9
IFRS	**23.10p**	18.025p	28.2
Adjusted net asset value per share attributable to equity shareholders	**1,226p**	1,801p	(31.9)
Net asset value per share attributable to equity shareholders	**1,170p**	1,770p	(33.9)
Total return attributable to equity shareholders	**(30.6)%**	2.8%	
Gearing			
Balance sheet	**71.2%**	42.5%	
Profit and loss	**1.88**	1.81	

A list of definitions is provided on page 95.

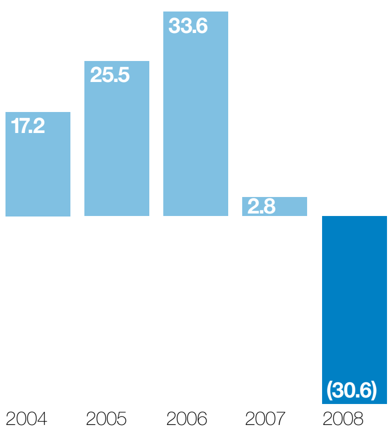
Adjusted net asset value per share
(pence)*



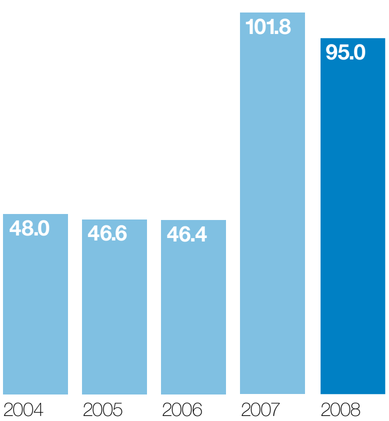
Dividend per share
(pence)



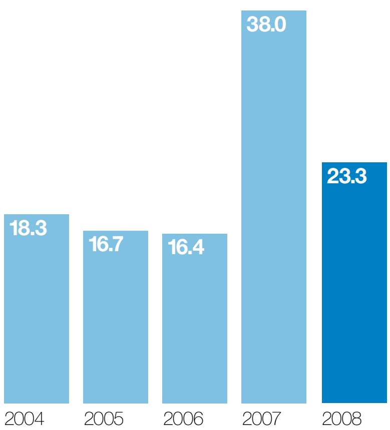
Total return
(%)*



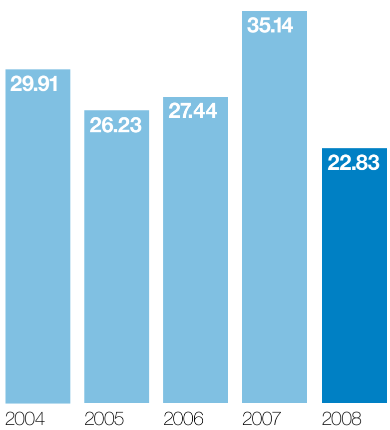
Recurring net property income
(£m)



Recurring profit before tax
(£m)



Recurring earnings per share
(pence)*



*Attributable to equity shareholders.

Arup headquaters, Fitzroy Street, Fitzrovia

Despite a difficult year, Derwent London has made good operational progress with strong asset and financial management.

Last year proved to be extremely demanding for both the UK economy and the property sector, with ongoing turmoil in the financial markets creating an unprecedented lack of liquidity and pushing the wider economy into recession.

In the property industry, this has been evidenced by the largest ever annual fall in the IPD Central London Offices Index, with no part of the market being unaffected. However, we have retained our focus on matters within our control, namely asset and financial management, and this has enabled us to make good progress with a number of operational objectives. We entered 2008 with relatively modest balance sheet gearing and some £370 million of unutilised, committed bank facilities. This position of financial strength was maintained throughout the year and is one result of management applying its proven strategy through a number of economic and property cycles. This strategy is to acquire income producing office buildings, predominantly located in London's West End and surrounding villages, that offer the potential for regeneration, and to improve these, over time, through refurbishment or redevelopment. Capital is then recycled through the disposal of mature assets.

Results

At the year end the adjusted net asset value per share attributable to equity shareholders was 1,226p, a decrease of 32% from 1,801p at 31st December 2007. Of this decline, 78% occurred in the second half of the year.

The investment portfolio was valued at £2.1 billion at 31st December 2008, a reduction from the previous year end of £597 million before lease incentive adjustments of £5.0 million. Properties held throughout the year fell in value by 22.1% compared to a gain of 4.3% in 2007. Central London properties, which account for 94% of the portfolio, showed a decrease of 22.5% for the year, with a decline in the second half of 17.8%. The portfolio's annual property return of minus 18.9% compares favourably to the IPD Central London Offices Index which showed a negative return for the year of 23.5%.

During the year, the portfolio's initial yield, based on the annualised contracted rental income, increased from 4.4% to 6.0% whilst the true equivalent yield increased from 5.7% to 7.1%. The estimated rental values that underlie the 2008 year end valuation showed a decrease of 3.4% over the year, clearly illustrating the relative resilience of our middle market rental values. The principal cause of the decline in the portfolio valuation was the upward movement in investment yields, although the group's yield profile confirms that the portfolio has maintained a reversionary element.

The group's recurring profit before tax was £23.3 million, after two major charges to the group income statement. Without these, the profit would have been £39.9 million compared to £37.6 million for the prior year. One of these items was reported at the interim stage and is the £8.3 million reverse premium paid to the tenant at 1-3 Grosvenor Place, for the surrender of its lease. The other is an £8.3 million foreign exchange translation movement included in finance costs; this is a non-cash item arising on the consolidation of a dormant overseas subsidiary inherited with the acquisition of London Merchant Securities plc, the scale of which has been caused by the rapid deterioration of sterling against the dollar. It has little impact on net assets as there is a similar amount credited direct to reserves. Notwithstanding a tax credit, diluted recurring earnings per share were 22.73p compared with 34.99p in 2007.

Dividend

The directors are recommending a final dividend of 16.35p per share of which, as a REIT, 10.0p per share will be paid as a property income distribution (PID). This, together with the interim dividend of 8.15p per share, makes a total for the year of 24.5p, an increase of 8.9% on the 22.5p per share paid in respect of 2007. The total dividend paid as a PID for the year will be 15.0p per share. The final dividend will be paid on 19th June 2009, to those shareholders on the register on 22nd May 2009. Going forward, the board is committed to at least maintaining the current level of dividend, with a view to returning to a progressive dividend policy when the markets improve.

Market review and activity update

The consequences of the weakening economy have been felt across the central London occupier market and deteriorating tenant activity has filtered through into increased vacancy rates, below average take-up, rental declines and greater leasing incentives. Against this backdrop, the group has performed well; delivering strong lettings, renewals and reviews and reducing the amount of vacant space.

As a group, we concentrate our ownerships in the West End and surrounding villages where there is a more diverse tenant base and lower exposure to the financial sector than in the City and Docklands. Together with limited existing and future supply, this has, to date, seen the West End weather the downturn better and should provide a degree of resilience in the future.

During the year, the main objective of our asset management team was to capture the reversionary potential of the portfolio through lettings, rent reviews and lease renewals. By the end of the year, these had added £16.2 million to gross property income.

The group's letting achievements demonstrate that the middle market rents in our central London locations remain attractive to tenants, albeit they are not immune to the overall downward pressure. Lettings of 45,300m² of space were made during the year which will ultimately generate rents of £16.3 million per annum. The principal letting was the 13,000m² pre-let to Cancer Research UK at Angel Building, Islington. It is notable that in a weakening economy, over 75% of these lettings were made in the second half with 29% in the final quarter.

We were also successful in retaining tenants within our portfolio through the quality of our space and management's close relationship with them. In the period, approximately 10% of the portfolio's rent roll was subject to break options or lease expiries. Of this income, 81% was retained or re-let. This performance was achieved through intense management of a portfolio with a low average passing rent of £266 per m² (£25 per sq ft). This is a parameter that has always been a cornerstone of our business. It provides protection in a down market and upside opportunity for when the market recovers. Following this activity, space available to let at the year end was 3.8% of rental value (last year 4.5%) and 4.0% of the group's total floor space of 520,400m². This compares to CB Richard Ellis's published rate for central London of 5.3%.

To date, we have experienced negligible tenant default. Throughout the year, we collected, on average, 97% of the rents within 14 days of the quarter day, with the December quarter only marginally lower at 96%.

As part of our portfolio management, the disposal of non-core properties realised a total of £72.6 million, £1.2 million above the December 2007 book value.

Expenditure on strategic acquisitions totalled £32 million in the year, predominantly to facilitate future schemes in Fitzrovia. In addition, capital expenditure of £73 million was incurred, principally on our schemes at Angel Building, Arup Phase II, Fitzrovia and Horseferry House, Victoria. The latter two schemes were completed during the year.

In the current climate, we have restricted our development exposure to three main projects; Angel Building, Gresse Street and Arup Phase III. This programme has been substantially de-risked as, overall, we have pre-let nearly 60% of the space. Capital expenditure to complete these projects is £70 million in 2009 and £25 million in 2010. Where we have delayed schemes, the properties remain income producing and the group retains control over the timing of future development.

Three important planning permissions for future schemes were obtained during the year which, if developed, would add 37,900m² of additional space to the portfolio.

Finance

Despite the lack of liquidity in the financial markets, three bank facilities, totalling £253 million, have been renewed in the last twelve months, including a £125 million loan that was due for repayment in November 2009. This shows the benefit of the long-term relationships that have been established with the group's banks. There are no further debt maturities until December 2011.

Prospects

We believe the economy will contract throughout 2009 and possibly into 2010 and the lack of financial liquidity will remain a major issue. We are cognisant of the challenges this presents and expect there to be continued downward pressure on rental levels and capital values with little improvement in the investment market. In response to these unparalleled market conditions, we will continue to focus on financial and asset management and to use our extensive experience of the London villages to maximise revenue.

This approach, combined with our financial strength, gives us confidence that we will emerge from this challenging period in a position to take advantage of opportunities that arise as the market recovers.

R. A. Rayne
17th March 2009

Burberry headquarters, Horseferry House, Victoria

The directors present their report and the financial statements for the year ended 31st December 2008.

The information required by section 417 of the Companies Act 2006 and that required by rules 4.1.8 to 4.1.11 of the Disclosure and Transparency Rules is given on pages 7 to 22 and pages 64 to 73. The disclosures in respect of financial instruments, as required by Schedule 7 of the Companies Act 1985, is given on pages 51 to 56.

There follows a review of the business. Further comments on the future outlook for the group can be found in the chairman's statement.

Business review

Introduction

Derwent London is a real estate investment trust that owns and manages a £2.1 billion commercial property portfolio. Its marketplace is central London and, in particular, the West End where 74% of the group's assets are located. Our business model is well established. Firstly, we acquire income producing office buildings that offer the potential for regeneration. Secondly, these properties are improved over a number of years through refurbishment or redevelopment. Thirdly, capital is recycled with the disposal of the more mature assets. The group is led by an experienced management team that has steered the business through a number of economic cycles.

A particular focus for the group, in operating a 520,400m² portfolio with nearly 1,000 tenancies, is to adopt a creative asset management approach. Our strong property expertise and close tenant relationships are fundamental in maximising income and minimising voids – a priority in the current environment. In addition, by applying innovative office design solutions to our projects, we have gained a strong reputation for delivering first class, award-winning space that is both attractive and yet, importantly, competitively priced. It is through the application of this strategy that we seek to generate above average total returns to shareholders. Whilst our total property return was -18.9% in 2008, this was an outperformance against the IPD Central London Office Index of -23.5%.

Our market

After sixteen years of economic prosperity, the UK economy deteriorated rapidly in 2008, ending the year in a recession that looks set to be deep and prolonged. Although the current economic crisis originated in the financial markets, its problems have spread to the wider economy with all sectors now feeling the pain of the economic slowdown. Accordingly, business confidence is low, unemployment is rising and the financial markets remain extremely fragile. London, which plays an important role in the UK economy by generating over 19% of the national GDP, felt the early impact of the downturn due to its dependence on the financial sector. In particular, this was evident in the City of London and Docklands due to their reliance on national and international financial organisations. Approximately 58% of the capital's office space is located in these areas.

The consequences of the weakening economy were felt across the central London occupier market and, by the year end, the deteriorating tenant activity had filtered through into increased vacancy rates, below average take-up, rental declines and greater leasing incentives. According to surveyors CB Richard Ellis (CBRE), the central London office vacancy rate increased from 3.0% to 5.3% during the year. By sub-area, the West End's vacancy rate increased from 2.3% to 5.1% whilst the City's increased from 3.5% to 7.1%.

As a group, we concentrate our ownerships in the West End where there is a lower exposure to the financial sector compared to the City and Docklands. To date, the West End has weathered the downturn better due to its broader tenant base and more limited office supply. This was reflected in our strong letting activity, which totalled 45,300m² in 2008, with a further 9,700m² either let or under offer since the year end – an excellent achievement in the current market.

In the investment market, the lack of financial liquidity and the deteriorating economy have led to increased pressure on occupiers, a weakening of rents and a slowdown in activity. After peaking in mid-2007, capital values across the UK, irrespective of the sector, have seen substantial declines, falling in the region of 35% to December 2008. By turnover, central London office investment transactions in 2008 were down 58% from 2007, at £7.4 billion. Whilst the dramatic reductions in the base rate since October have provided a stimulus to the market by making property yields more attractive, until funding availability in the lending market returns, investment activity will remain limited.

Outlook

The economic outlook for the next few years is extremely challenging, with GDP estimated to decline in the region of 3.0% in 2009 and 1.0% in 2010. Consequently, in both our market and across the UK, occupier demand will weaken, leading to increased vacancy rates, whilst the investment market will remain constrained. Surveyors Jones Lang LaSalle forecast that by the end of 2010, vacancy rates will have risen to around 8% in the West End and 14% in the City. In these operating conditions, the group will continue to liaise closely with its tenants to keep voids to a minimum whilst maximising cashflow. In respect of our developments, we are completing our current projects and have reduced our development risk by pre-letting 57% of the proposed floorspace. New projects are on hold until the market improves. These future projects involve buildings from within our portfolio that are currently income producing, and we will manage them for cashflow retention whilst retaining their long-term development flexibility.

We expect that our main operating area, the West End, will prove more resilient than the City due to its greater tenant diversification and limited existing and future supply. In addition, the characteristics of our portfolio such as its low average rent (£266 per m²), a modest vacancy rate (3.8%) and broad tenant range, should provide a degree of defence for the future. Our income stream is strong, with an average unexpired lease length of 8.3 years, and our competitively priced, high quality product, aimed at the middle rental market (£400-£600 per m²), is well placed to attract the limited number of tenants in the market.

Key performance indicators (KPIs)

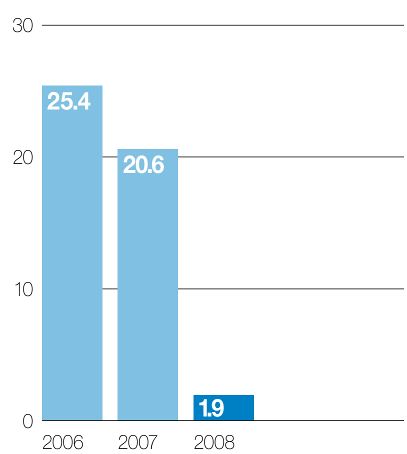
		Performance	Benchmark	Comments
Financial				
Total return To exceed the return achieved by the other major REIT companies.	**2008** 2007	**-30.6%** 2.8%	**-34.5%** 2.0%	The benchmark is an annualised calculation based on published information from the other major REIT companies.
Profit and loss gearing	**2008** 2007	**1.88 times** 1.81 times	**1.80 times** 1.80 times	Benchmark outperformed in both 2008 and 2007.
Tenant receipts To collect on average greater than 95% of rent invoiced within 14 days of the quarter day throughout the year.	**2008** 2007	**97%** 95%	**95%** 95%	This is monitored closely to assess the health of our tenants. The level of collection was maintained during the year and ranged from 96% to 98% (2007: 94% to 98%).
Property				
Total property return To exceed the annualised IPD Quarterly Property Index for All UK Property on a three-year rolling basis.	**2008** 2007	**12.6% p.a.** 25.6% p.a.	**-4.2% p.a.** 10.2% p.a.	The IPD provides the most commonly used benchmarks for the real estate sector. The chosen KPIs were outperformed on both an annual and rolling three-year basis.
To exceed the IPD Quarterly Property Index for Central London Offices on an annual basis.	**2008** 2007	-18.9% 30.1%	-23.5% 0.7%	
Void management The rental value of space immediately available for letting must not exceed 10% of the portfolio's reversionary rental value.	**2008** 2007	**3.8%** 4.5%	**10%** 10%	The group had an active year in letting space and reduced its vacancy rate from 4.5% to 3.8%. The available space had a rental value of £6.4 million per annum at year end.
Environmental				
Impact of developments All developments in excess of 5,000m² must be assessed using the Building Research Establishment Environmental Assessment Method (BREEAM) and achieve a Very Good rating or above.		See comments		The BREEAM status has not yet been finalised at both Qube and Arup Phase II. The group expects to achieve Very Good and Excellent ratings respectively.

Other performance measures

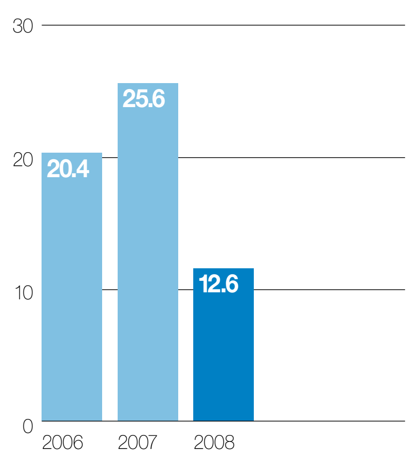
		Performance	Benchmark	
Capital return	**2008**	**-22.1%**	**-27.0%**	IPD Central London Offices Capital Growth Index
	2007	4.3%	-3.1%	
Total shareholder return	**2008**	**-47.9%**	**-46.6%**	FTSE All-Share Real Estate Index
	2007	-29.3%	-34.5%	

A list of definitions is provided on page 95.

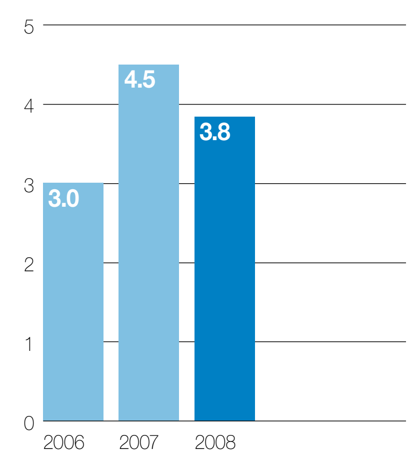
Three-year rolling total return
%



Three-year rolling property return
%



Profile of available floor area
Portfolio rental value %



Outperformance against the IPD Central London Offices Index by 20% for total property return.

Property review

Valuation commentary

We entered the year under review with the property investment market experiencing difficult and deteriorating conditions as the financial crisis, which started in mid-2007, deepened and spilled over into the general economy. The outcome was a downward economic spiral that put the UK firmly in recession by the end of 2008.

One of the consequences was a virtual cessation of debt availability in the second half of 2008, a key source of finance for the commercial property market. With this restriction, and the weakening outlook for tenant demand, it was inevitable that investment turnover would drop. As a result, valuation yields increased and property values declined.

It was against these severe economic conditions that our investment portfolio was valued at £2.1 billion at the end of December 2008. This produced a valuation deficit for the year of £597.1 million, before lease incentive adjustments of £5.0 million. The valuation of properties held throughout the year, excluding development properties, was £1,976 million and showed a £543.6 million valuation deficit. The development properties, which principally comprise the Angel Building, Arup Phase III and 16-19 Gresse Street, were valued at £107 million, a decrease of £46.9 million over the year. Whilst 57% of these schemes, by floor area, are pre-let, the valuation decrease was a result of the general uncertainty over the rental levels achievable and the likely timeframe for letting the remaining space. The balance of the portfolio, at £25 million, comprises the acquisitions made during the year. These decreased by £6.6 million, as a result of the acquisition costs being written off and the increase in valuation yields. However, these properties will facilitate long-term development opportunities being adjacent or near to existing holdings. The portfolio's underlying valuation movement during the year was a decrease of 22.1% against a 4.3% increase in the previous year. This continued the group's outperformance of the IPD Central London Offices Capital Growth Index of -27.0% (2008) and -3.1% (2007).

Our focus is the West End, where 74% of the portfolio is located. Here, values declined by 22.1% and, not surprisingly, none of our operating villages were immune as valuation yields moved out and rental values declined. We have no holdings in the City core but prefer to concentrate on the City border locations, such as Holborn and Clerkenwell, due to their more diverse tenant base. These properties represent 20% of the portfolio and decreased in value by 23.9% during the year. The balance of the portfolio at 6% is situated in provincial locations, principally Scotland, and these decreased in value by 15.6%.

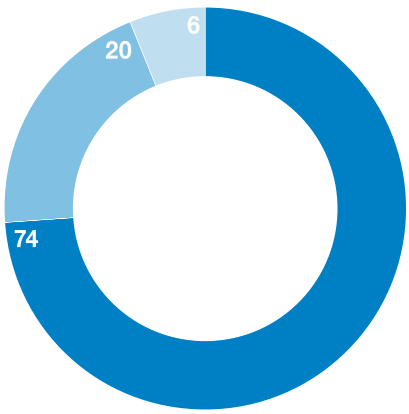
The portfolio's estimated rental values increased by 1.3% in the first half of the year before decreasing by 4.6% in the second half. The annualised figure was a decline of 3.4%. Our low average and middle market rental values proved much more resilient than the prime rental areas of the West End which saw double digit rental falls over the year.

Whilst rental and capital values declined, our letting and portfolio management activities added income to the portfolio. This combination increased the portfolio's initial yield, based upon the annualised contracted rent and after rent free periods, to 6.0% at 31st December 2008, compared to 4.4% a year before. Upon letting our available space, the yield will rise to 6.3% and ultimately to 7.6% upon full reversion. The portfolio's true equivalent yield was 7.1% at the year end, an increase from 5.7% at the start of the year and 6.1% at 30th June 2008.

The group's total property return for 2008 was -18.9%, driven by the downward valuation movements. However, this outperformed the comparator benchmark, the IPD Central London Office Index, which recorded a -23.5% return.

Profile of property ownerships

%



West End
Fitzrovia/Euston
Victoria
Soho/Covent Garden
Noho
Belgravia
Marylebone/Baker St
Mayfair
Paddington
Islington/Camden
Ladbroke Grove

City
Clerkenwell
Old Street
Holborn
Shoreditch
Southbank

Provincial
Scotland
Kingston-upon-Thames

Portfolio statistics and performance

	Valuation £m	Weighting %	Valuation performance* %	Total floor area m²	Available floor area m²	Project floor area# m²
West End						
Central	1,429.6	68	(21.9)	284,600	6,700	13,300
Borders	117.8	6	(25.0)	57,600	4,600	3,600
	1,547.4	74	(22.1)	342,200	11,300	16,900
City						
Borders	425.5	20	(23.9)	125,700	3,800	4,200
Central London	1,972.9	94	(22.5)	467,900	15,100	21,100
Provincial	135.1	6	(15.6)	52,500	5,600	100
Total portfolio 2008††	**2,108.0**	**100**	**(22.1)**	**520,400**	**20,700**	**21,200**
2007	2,671.7	100	4.3	533,100	21,400	32,400

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant accommodation rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length† Years
West End						
Central	79.2	303	10.0	17.5	106.7	9.4
Borders	8.0	161	1.7	6.4	16.1	3.2
	87.2	281	11.7	23.9	122.8	8.8
City						
Borders	30.6	261	1.5	3.6	35.7	5.9
Central London	117.8	275	13.2	27.5	158.5	8.1
Provincial	8.6	184	1.0	(0.3)	9.3	11.9
Total portfolio 2008	**126.4**	**266**	**14.2**	**27.2**	**167.8**	**8.3**
2007	117.6	247	18.4	36.6	172.6	9.1

* Properties held throughout the year.
\# Excludes Angel Building as the property was income producing at the year end.
† Lease length weighted by rental income and assuming tenants break at first opportunity.
†† See pages 90 and 91 for a list of principal properties.

Portfolio yields

	Core rental income per annum £m	Development rental income per annum £m	Total rental uplift per annum £m	Total rental income per annum £m	Yield ‡ %
Annualised contracted rental income, net of ground rents**	121.1	5.3		126.4	6.0
Letting 20,700m² of available floor area	6.4	–	6.4		6.3
Completion and letting 21,200m² of project floor area	5.0	2.8	7.8		6.6
Contracted Arup Phase III additional rental increase at completion	–	2.4	2.4		6.7
Angel Building additional rental income upon letting development	–	6.2	6.2		6.7
Contractual lease rental increases across the portfolio	3.1	–	3.1		6.9
Anticipated rent review and lease renewal reversions	14.6	0.9	15.5		7.6
Portfolio reversion				41.4	
Potential portfolio rental value	150.2	17.6		167.8	7.6

‡ Yield based upon the year end valuation and adjusted for costs to complete commenced projects.
** Includes rental income from pre-lets.

151 Rosebery Avenue, Clerkenwell

Lettings

In what was a challenging letting market, with tenants becoming increasingly cost and commitment conscious, we adopted a pragmatic letting policy in both pricing and lease terms. This strategy delivered 82 leasing transactions during the year, totalling 45,300m², including a number of scheme pre-lettings. The combined rental income from these lettings was £16.3 million per annum, of which £9.3 million was from space that was not income producing at the start of the year. The difference was principally at the Angel Building, as we still receive £4.2 million per annum from BT. Our letting activity was almost double the £8.3 million in 2007. More importantly, 29% of our lettings by floorspace were in the final quarter of 2008, demonstrating the demand in these markets for our particular brand of high quality, good value space.

A significant proportion of the transactions during the year were pre-lets, substantially reducing our development risk, whilst a number were short-term lettings to accommodate our future development aspirations – North Wharf Road, City Road Estate and Wedge House. Overall, lettings were 6.6% below the valuer's estimated rental values at December 2007. However, after excluding short-term development lettings that were carried out at reduced rents to retain lease flexibility, the rental values were 2.3% above valuer's estimates.

- Angel Building, Islington – Early in 2008, we undertook a pre-letting strategy at this major 24,400m² project. The outcome was one of the largest central London lettings of the year as 13,000m², over half of the building, was let to Cancer Research UK on a 20-year term with a 24-month rent free period and a break option at year 15. The rent is £5.6 million per annum with the main space achieving £441 per m². The building is due for completion in summer 2010.
- Qube, Fitzrovia – In 2008, a total of 4,100m² of office and retail space was let at an annual rental income of £2.3 million. The office lettings were to architects HOK International who took 2,500m² at a rent of £1.3 million per annum (£603 per m² on the prime space) and to Geronimo Communications, part of the Tribal Group, who leased 1,100m² at £0.7 million per annum (£624 per m²). Retail lettings were to Space NK and Tossed. By floorspace, 59% of the Qube was let at the year end. A further 37% is now either let or under offer.
- Gordon House, Victoria – This building has undergone a phased refurbishment with 1,500m² completed in 2008, including the addition of a new penthouse office floor. The entire space was pre-let to The Benefit Express at an annual rental income of £0.9 million (£619 per m²), which set a new rental level in the building.
- 151 Rosebery Avenue, Clerkenwell – Whilst under refurbishment, we pre-let five of the six office floors (1,800m²) to Momentum Activating Demand at £0.7 million per annum, which equates to £431 per m².
- Tea Building, Shoreditch – Following the granting of planning permission to transform a redundant element of this building into a 25 bedroom boutique hotel, we pre-let the space to Soho House at an annual rent of £0.3 million. This mixed-use building has already become a local landmark and this letting will further strengthen its status in the area.

An active year for lettings with 82 transactions totalling 45,300m^2 with an income of £16.3m p.a.

With this activity, and our pro-active asset management, the group's immediately available space reduced from 4.5% to 3.8% during the year. This remains substantially lower than our KPI's upper limit of 10%. By floor area, the group's year end vacancy rate was 4.0%, below CBRE's published rate for central London of 5.3%. However, with the completion of our Gresse Street development later this year, and the Angel Building in 2010, we expect the amount of available space in the portfolio to rise over this period. As an indication, when complete, these two projects could potentially increase the rate to 8.2% by rental value or 7.0% by floor area. To manage the exposure from the completion of our current projects, we have initiated pre-marketing campaigns and are in discussions with a number of potential occupiers.

Portfolio management

Key characteristics of the Derwent London portfolio are low average rents, a diverse tenant mix and an average unexpired lease length of 8.3 years. At the year end, the average rent of our central London portfolio was £275 per m^2, with the West End at £281 per m^2 and the City borders at £261 per m^2. These are important defensive attributes in the current economic climate.

To illustrate our diverse profile of tenants' business sectors, at the year end 40% of the portfolio's contracted rental income was from professional and business services, 22% from media and 16% from retail and leisure. The financial sector accounted for 7% of income with another 7% from government and public administration. By rental income, our ten principal tenants were Arup, the Government, Burberry, Saatchi & Saatchi, BT, Thomson Reuters, Pinsent Masons, MWB Business Exchange, BBC and Jupiter Investment. These occupiers represented 35% of the portfolio's income at the year end. In total, we have 49 tenants paying in excess of £0.5 million per annum of which 23 are paying over £1.0 million. As part of our letting process, we critically assess the covenant strength of all potential new tenants and regularly monitor the financial health of the existing tenant base.

The focus for our asset management team in 2008 was to capture the reversionary potential of the portfolio through rent reviews and lease renewals. Their extensive local knowledge and experience, combined with a strong working tenant relationship, have enabled us to maintain a high occupancy rate and generate additional income. For example, of the 96 tenant break options during the year, 88% of tenants by rental income did not exercise their option and, of the balance, 48% of the space has already been re-let.

Of the 103 lease expiries during the year, 43 renewals were completed on 13,100m^2 of space, achieving a rental income of £4.0 million per annum. These renewals were 26% above the previous rent and were in line with the valuers' estimated rental values at the beginning of the year. Of the remainder, 25 renewals are in the process of being concluded and 35 tenants vacated. Of the vacated space, 34% has since been re-let. In addition, 94 rent reviews were settled, producing an 18% increase over the previous rent and adding £4.0 million to the group's contracted rent roll. These were also in line with the valuers' estimated rental values at December 2007.

Examples of notable asset management activity included:

- 1-3 Grosvenor Place, Belgravia – As part of our long-term strategy for the redevelopment of this building, together with our adjacent 4-5 Grosvenor Place, we negotiated the surrender of Hanson's lease. The tenant occupied 6,900m^2 of offices at a low rent of £202 per m^2 and, whilst the group paid £8.0 million plus costs for the surrender, our income was enhanced by £1.2 million per annum from the under-tenants who occupied 75% of the building. Of the remaining space, we subsequently let 700m^2 at £0.4 million per annum and the balance is under offer.
- 80 Charlotte Street, Fitzrovia – We concluded a major, March 2008 rent review with Saatchi & Saatchi, involving 15,100m^2 of office floorspace. The rent was highly reversionary and we achieved a 45% uplift to £4.6 million per annum.

An important aspect of the business is managing our income collection and this is monitored closely to assess the health of our tenants. This is one of the group's KPIs, whereby at least 95% of rent should be collected within 14 days of the quarter day. Despite the deteriorating economic conditions, there has been little change in our collection profile. In 2008, an average of 97% of rent was received within 14 days of the quarter day. The number of tenants defaulting continued to be de minimis.

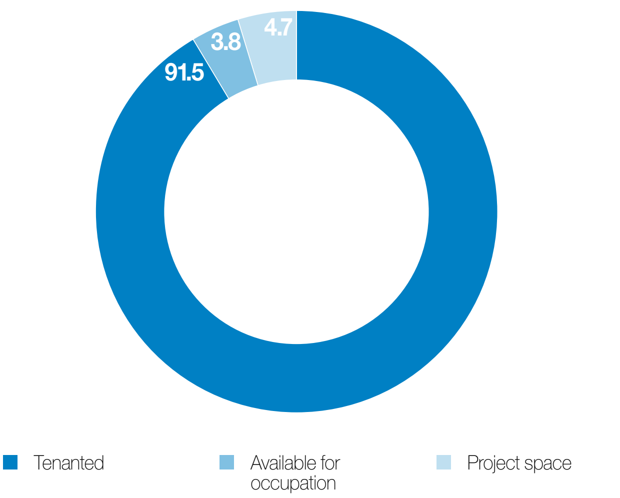
At the year end, the group's annualised net contracted rental income was £126.4 million. The valuers' estimated rental value of the portfolio was £167.8 million, indicating a £41.4 million reversion, equivalent to a 33% uplift. This has reduced from 47% in 2007 as a result of lettings and lease management activities, which have increased the rental income and crystallised reversions, and due to rental values declining over the year.

Of the potential reversion, £6.4 million was from immediately available space of which the majority comprised Qube (£2.5 million), Strathkelvin Retail Park (£1.0 million) and Portobello Dock (£0.8 million). There was a further £16.4 million from our refurbishments and developments, such as 16-19 Gresse Street and the Angel Building. The balance of the reversion (£18.6 million) was from future rent reviews and lease renewals. With rental values likely to decline during 2009, this reversion will decrease. However, £3.1 million is secured through contracted fixed increases under existing leases.

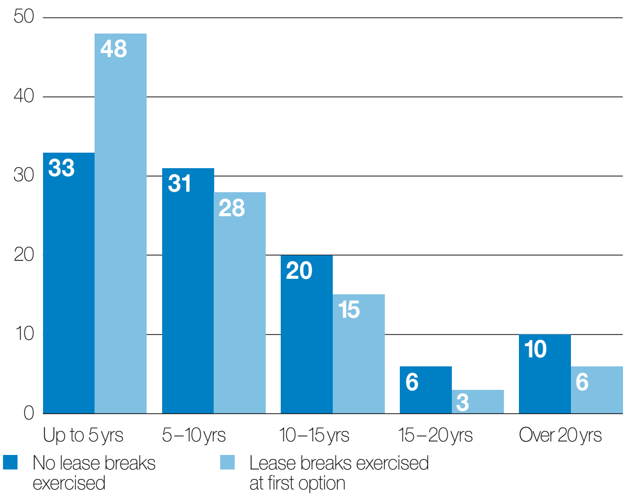
Over the next two years, 14% of the group's contracted rental income is subject to lease expiries, rising to 21% when tenant lease breaks are included. Within these figures, 3% is attributable to the BT income at the Angel Building which is receivable until March 2010 and which will be replaced by rent from the Cancer Research UK letting.

Vacancy rate reduced from 4.5% to 3.8% during the year

Profile of floor area
% of portfolio rental value

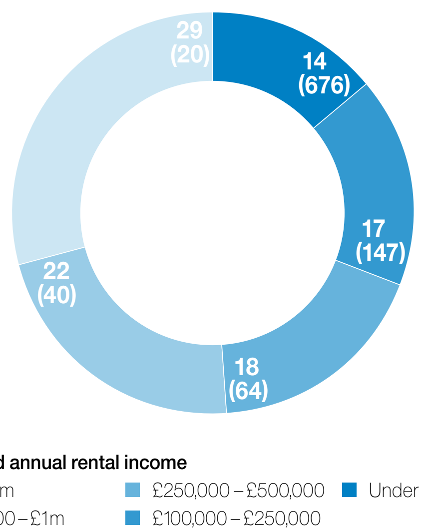


Profile of rental income expiry
% of rental income[1]



A portfolio with a balanced income profile supported by a financially strong core of key tenants

Profile of rental income bands
% of rental income[1]
( )number of tenancies



Ten principal tenants
% of rental income[1]

Arup	7.8
Government	6.8
Burberry	4.1
Saatchi & Saatchi	3.7
BT	3.3
Thomson Reuters	2.1
Pinsent Masons	1.9
MWB Business Exchange	1.7
BBC	1.7
Jupiter Investment	1.7
	34.8

[1] Based upon contracted rental income of £126.4m per annum

Disposals and acquisitions

Following our timely and substantial sales programme in 2007, which generated £343.5 million, disposals in 2008 were more modest at £72.6 million, after costs. They continued our policy of disposing of non-core assets, principally smaller properties or those in provincial locations. Overall, these were concluded at a profit of £1.2 million. With a rental income of £3.2 million per annum they reflected an exit yield of 4.4%.

The principal disposals were retail assets in Southampton and Bournemouth for £18.6 million and £10.3 million respectively, and the £12.3 million sale of the vacant residential element of Portobello Dock.

Purchases during the year were limited to £31.9 million, after costs, with an income of £1.5 million per annum. With the downward pressure on values, we tailored our purchases to those that were of strategic importance to the portfolio such as those adjacent to or nearby existing ownerships. For example, in Fitzrovia, where 23% of our assets are held, we acquired 53-65 Whitfield Street for £14.1 million after costs. At Gresse Street, Noho, we completed a lease re-gear and property exchange that expanded our ownership in the area and enabled us to improve the immediate surrounds of this current development.

For the year ahead, unless there is an easing in the credit markets, our disposal programme is likely to be restricted. However, the Astoria on Charing Cross Road, and 17 Oxford Street were compulsory purchased in January 2009 as part of the Crossrail project. We remain involved with the future redevelopment through a buy-back option of this site. We have received interim proceeds of £14.4 million from the sale, with the final payment subject to formal valuation which is underway. On the acquisitions side, the continued pressure on capital values may create interesting buying opportunities for the group although our approach will be cautious.

Development

During the year, capital expenditure totalled £73.0 million compared to £61.0 million in 2007. Completion of Arup Phase II and Horseferry House, both of which are fully let, and Portobello Dock accounted for £26.1 million of this total.

- Arup Phase II, Fitzrovia – In the heart of our Fitzrovia holdings is this new 5,300m² development, an important addition which has improved the location. It was completed in April 2008 and handed over to the tenant, Arup. They entered into a 25-year lease with no breaks at a rent of £2.4 million per annum which equates to £453 per m².
- Horseferry House, Victoria – The comprehensive 15,200m² office refurbishment and remodelling of this 1930s building was completed in May 2008. Burberry pre-let the property as their global headquarters, signing a 25-year lease with a break option at year 15. The annual rent of £5.3 million per annum equates to £411 per m² on the prime space.
- Portobello Dock, Ladbroke Grove – This mixed use 6,400m² canal-side project was completed in May 2008. The residential element of the scheme was pre-sold at the beginning of 2008 and several of the office suites have been let. Marketing continues for the remainder of the space although lettings have been slower than anticipated.

Of the remainder, £23.7 million was invested in our current projects and further details are set out below. The balance of the capital expenditure, £23.2 million, was for smaller refurbishment projects such as those at Gordon House and 151 Rosebery Avenue.

Development pipeline

Whilst the commencement of new projects is on hold, our strategy is to retain future flexibility at these buildings through our leasing structure, as many offer the opportunity for regeneration and substantial floor area increases. Meanwhile, we will continue to evaluate our appraisal studies as the planning process is complex and can take a number of years.

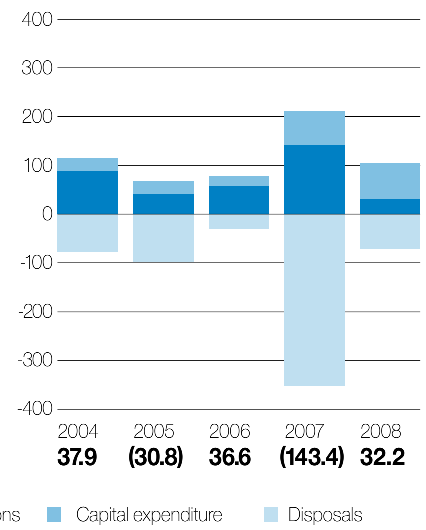
To enable us to plan our development timings, thereby managing our exposure and risk, our development pipeline is categorised into three specific stages.

1 Current projects: Schemes that are committed and construction is underway

In 2008, we continued work at our Gresse Street development and commenced construction at the Angel Building and Arup Phase III, providing a total floorspace of 36,700m². Of this, 20,900m² is pre-let at an income of £9.2 million per annum. Approximately £99 million of capital is required for their completion. This commitment is spread out over the next three years with £70 million anticipated in 2009, £25 million in 2010 and the balance in 2011.

- Angel Building, Islington – After receiving planning permission in February 2008 for a comprehensive refurbishment and extension, construction work commenced in June. The project increases the building's floor area by 62% to 24,400m². Cancer Research UK has pre-let 13,000m² at £5.6 million per annum. During the development period, the non-occupying tenant, BT, will continue to pay a rent of £4.2 million per annum. This commitment is until March 2010, thereby mitigating substantial holding costs, and ties in with the scheduled completion in summer 2010.

Net investment
£m



£9.2m of income secured from pre-lets – 57% of proposed area

Current projects

Arup Phase III, Fitzrovia
The final phase of a new build office complex for Arup, in the heart of our Fitzrovia Estate. Arup has taken a 25-year lease, with no breaks, at £3.6 million per annum.

Proposed net area (m^2)	7,900
Completion date	Q4 2009
Estimated cost to complete (£m)	14.0
Area pre-let (%)	100

Gresse Street, Noho
A 4,400m^2 office building under construction with 11 residential units to be provided in an adjacent building in Rathbone Place. The development is set around a central courtyard and is a good example of our regeneration skills.

Proposed net area (m^2)	4,400
Completion date	Q3 2009
Estimated cost to complete (£m)	10.3
Area pre-let (%)	–

Angel Building, Islington
This major refurbishment and extension project is progressing well. Over half of the space is pre-let to Cancer Research UK, at £5.6 million per annum on a 20-year lease with a break at year 15.

Proposed net area (m^2)	24,400
Completion date	Q3 2010
Estimated cost to complete (£m)	75.0
Area pre-let (%)	53

- Arup Phase III, Fitzrovia – The 7,900m^2 new build development adjoins Phase II and is due for completion at the end of this year. The building will provide first class accommodation and, with its enterprising design, we are targeting a BREEAM Excellent rating. Like Phase II, it is pre-let to Arup on a 25-year lease with no breaks. The tenant currently pays an annual rent of £1.2 million for Phase III whilst construction is underway and this will rise to £3.6 million at completion.
- 16-19 Gresse Street, Noho – A mixed-use scheme, located just off Oxford Street. We are developing a 4,400m^2 office building, and converting a nearby building to residential accommodation. These are due for completion this autumn. This project is a good example of our regeneration work. We have taken a neglected, yet central, area and are transforming it into a stylish and lively destination with attractive public space.

2 Planning consents: Schemes where planning permission has been granted but the project is not committed

During the year, four important planning consents were obtained: North Wharf Road; the Angel Building; 40 Chancery Lane; and City Road Estate. These are in addition to our existing consents at Wedge House, The Turnmill and Leonard Street. With the commencement of the Angel Building project, and its movement from this category into current projects, schemes with planning permission at the year end totalled 80,400m^2, equating to a 154% floorspace uplift. This potential increase will provide an important source of value creation in a more favourable market. The existing buildings are valued at £86.3 million and produce an annual rental income of £4.2 million. They are 86% occupied and have a low average passing rent of £175 per m^2. These are key features of our development pipeline, whereby the existing properties provide a valuable source of rental income for the group.

3 Appraisal studies: Project studies where planning and viability assessments are underway

Whilst clearly not at the forefront of our current strategy, it is important that we selectively advance our key appraisal studies. We are limiting our capital expenditure to initial architect studies and planning negotiations. However, this expenditure is flexible and can be easily adjusted depending on market conditions. The existing buildings remain income producing whilst studies progress. Ultimately, these could be some of our most significant developments over the next decade.
Of current importance is our Charing Cross Road ownerships. These form part of a new Crossrail and underground transport interchange and we are working on a masterplan with Crossrail for this major regeneration project. A planning application is likely to be submitted later this year.

Finance review

While the group's results are prepared in compliance with International Financial Reporting Standards, as adopted by the European Union (IFRS), and the accounting policies set out in the notes to the accounts, the investment community traditionally makes a number of adjustments to the key IFRS figures. The board also uses these adjusted figures because it believes they give a more meaningful reflection of the group's performance. Consequently, they are referred to in this review.

Results commentary

Net assets per share

The adjusted net asset value per share attributable to equity shareholders was 1,226p at 31st December 2008, compared with 1,801p at the previous year end. The reduction of nearly 32% is principally due to the fall in value of the investment portfolio. As shown in the group income statement, this amounted to £602.1 million with a further deficit of £1.3 million reported in the joint ventures' results. The extent of the fall in value can be attributed to the effect of the financial crisis on fully valued real estate, and the subsequent impact of a deteriorating global economy. A fuller explanation of the valuation movements has been provided earlier in the business review. At 31st December 2008, adjusted net assets, excluding minority interests, were £1,235.8 million compared with £1,813.8 million at the 2007 year end. A reconciliation of the adjusted net assets to the balance sheet total is provided in note 38.

Loss before tax

The group income statement for the year ended 31st December 2008 shows a loss before tax of £606.5 million which compares with a loss in 2007 of £99.8 million. While the 2007 loss can be attributed to the write-off of goodwill of £353.3 million associated with the acquisition of London Merchant Securities plc (LMS), the 2008 loss, as noted above, can be predominantly attributed to the group valuation deficit of £602.1 million. In 2007, the group reported a net valuation surplus for the year of £90.3 million, although the downward trend had been established in that year with a deficit of £152.9 million being recorded in the second half. In 2008, the loss before tax was exacerbated by an adverse movement in the year end fair value of the group's interest rate hedging derivatives of £28.1 million. This was caused by the rapid fall of interest rates in the last quarter of the year as the Bank of England sought to stimulate the economy. This took interest rates well below the 10-year average rate and below the rates at which the group was hedged. Further information on the use of derivatives as a protection from the risk of interest rate movements can be found later in this review.

While the loss of £606.5 million is the headline figure, the board monitors the recurring profit before tax. For the current year, this was a profit of £23.3 million against the 2007 comparable figure of £38.0 million. The reduction in profit of £14.7 million can be broadly explained by two large items charged against income. The first of these is the £8.3 million reverse surrender premium reported at the interim stage. This was paid to a tenant to gain control of a building which forms part of an important site that has future development potential. It was an opportunity to protect the prospective value of this particular site, and it is not anticipated that a payment on such a scale will be repeated over the medium term. The second item, which is included in finance costs, is the foreign exchange loss that arises from the translation into sterling of the dollar denominated, inter-company loan of the now dormant, LMS Inc. This amounted to £8.3 million and compares with a profit of £0.4 million in 2007. It is a non-cash item and has little effect on the net asset value because a similar amount, arising from the translation of equity, is credited directly to reserves. Both of these currency adjustments arose due to the sharp deterioration in the value of sterling against the dollar towards the end of 2008. The dormant company will be wound up as soon as various technical, mainly tax related, matters are resolved. Until this time, and as long as the sterling exchange rate fluctuates significantly against the dollar, these foreign exchange profits or losses will continue to feature in the group income statement. If both these charges against income were to be added back, the resultant recurring profit would be £39.9 million, an increase on 2007.

Nonetheless, the results from the underlying business are encouraging. Gross property income rose £7.3 million year on year to reach £119.0 million in 2008. The main drivers of this growth were lettings which added £12.3 million to 2007's total, and rent reviews which likewise provided £3.9 million. The group announced several lettings during 2008, details of which have been included in this review. The other year-on-year reconciliation items are: the absence of a surrender premium received in 2007 (£4.2 million); an increase in rent foregone at vacant space (£5.2 million); and a net increase in rent from acquisitions, including the extra month from LMS properties, and disposals (£0.5 million). Although property expenditure rose £4.7 million to £14.6 million, £2.1 million of this was the increase in fees associated with the letting, lease renewal and rent review activity, the benefits of which will flow through in future years. The only other major increase in property expenditure over 2007, which amounted to £2.3 million, related to costs associated with the vacant space, including that which is or has been subject to refurbishment or redevelopment. In an actively managed portfolio, the group will always have an element of void space. Not surprisingly in the current environment, the group's trading stock declined in value by £2.0 million. Further falls in value can be expected in line with that of the main investment portfolio.

Following the restructuring after the LMS acquisition, administrative costs have fallen £1.2 million from £19.5 million in 2007 to £18.3 million, with savings across all the major expense categories. At the time of the LMS acquisition at the beginning of 2007, the overheads of the combined group were approximately £20.2 million. Even if no allowance is made for two years' worth of inflation, overheads in 2008 were about £1.9 million lower than that, which reflects the synergies achieved after the integration was completed in the latter half of 2007. All the figures referred to here exclude the valuation adjustment to cash-settled share options over which the board has no direct control. This was a surplus of £1.6 million in both 2007 and 2008.

Net finance costs of £47.2 million, excluding the foreign exchange loss referred to earlier, were only £0.5 million above the equivalent figure for 2007. Although interest rates are currently at historically low levels, the main corporate borrowing rate, three month LIBOR, was considerably above these rates for the first nine months of the year. In spite of increased debt levels referred to later, the group's fixed and hedged debt, together with extensive use of the group's non-LIBOR facilities which attracted lower interest rates, provided considerable protection from the high rates. However, the group does not receive the full benefit of the recent fall in rates due to its fixed and hedged interest rate position.

There remains just two more items on which to comment in respect of profits. Following valuation of the Telstar development, which was managed on behalf of the Prudential, and the agreement of all the development costs, the group is able to report a further profit of £0.5 million in 2008. This makes a total profit of £14.1 million from the development management contract and the full amount of this was received during 2008. The second item is the profit on disposals. Immediately after the LMS acquisition and before property values softened, the board instituted a sales programme which led to in excess of £350 million of disposals and a realised profit of £130.8 million. In last year's more challenging times, disposals totalled £73 million with only a small net profit being achieved but, with values falling sharply during the year, this should be seen as a creditable achievement. Finally, the absence of all the adjustments associated with the LMS acquisition has simplified the 2008 group income statement.

Taxation

Derwent London converted to a REIT in 2007, the effect of which is that much of its income is exempt from taxation. However, there are always likely to be items outside the REIT ring fence on which tax will be payable. In 2008, the tax charge amounted to £1.4 million. Utilisation of tax losses within the LMS group, and over-provisions in prior years, generated a tax credit of £7.1 million which, with a write-back of deferred tax due to the revaluation deficit, lead to a net tax credit for 2008 of £9.3 million.

Recurring earnings per share

As with profit before tax, the most useful measure is to calculate this on a 'recurring' basis. A reconciliation of the various earnings per share figures can be found in note 17. Despite the tax credit, recurring earnings per share mirrored the recurring profits trend and were 22.83p for 2008 compared with 35.14p for the previous year.

Cash flow and debt

The net cash outflow from operating and investing activities was £60.2 million, which rose to £83.7 million after payment of dividends to shareholders and minority interests. This compares with an inflow in 2007 of £116.9 million which arose due to the aforementioned high level of property and investment disposals that year. In 2008, the group capital expenditure was £72.9 million, a small increase on last year's £68.3 million, while acquisitions of investment properties fell by £108.8 million to £31.9 million. This reflects both the lack of suitable opportunities coming on to the market and our caution in the current economic climate. Likewise, property disposals declined from £343.3 million to £72.6 million so that there was a net investment in the portfolio in 2008 of £32 million. A major one-off payment in the year was the entire REIT conversion charge of £53.6 million, which accounted for 64% of the total cash outflow referred to above.

Due to the cash outflow, the balance sheet net debt rose to £865.4 million at 31st December 2008 from £782.8 million at the same date in 2007. With falling asset values and increased debt, balance sheet gearing increased from 42.5% at the 2007 year end to 71.2% at 31st December 2008. Property gearing – effectively a group loan to value ratio – was 39.7% at December 2008 compared with 28.2% in 2007.

The last of the three important gearing figures, the interest cover (profit and loss gearing), was 1.88 in 2008 against 1.81 for 2007, slightly above the KPI benchmark figure of 1.80. However, this ratio has been redefined for 2009 onwards in order to remove the increasing number of valuation and other adjustments that had to be made to calculate the ratio as originally intended. The new definition is designed to show, on a group basis, a ratio similar to that which is included in many of the group's security specific bank covenants. The redefined figure for 2008 is 2.47 against a recalculated rate for 2007 of 2.24.

Financing

Last year proved to be an extraordinary period in the financial markets. A number of banks ceased business or had to be rescued by national governments around the world. The impact of this for borrowers is the paucity of new bank facilities as, globally, banks seek to reduce their lending to restore capital ratios, and reduce exposure to sectors including real estate. Successive interest rate cuts have done little to alleviate this position. This lack of liquidity in the financial markets is a major concern, and a key risk for corporates generally. The group, as expected, has benefited from the long-term relationships it has established with its banks, and in the last 12 months has been able to renew all of its maturing facilities. This includes the £125 million facility that was due for repayment in November 2009, the replacement facility for which was approved by the bank's credit committee in March 2009. Once the documentation is signed, the group will have no further debt maturities until December 2011. The three facilities that have been renewed total £253 million but the price of renewal has been higher margins and shorter terms than those of the maturing loans. Renewal of these loans demonstrates the banks' support for the group and its covenant position. All the financial covenants are security specific, except for those of one small unsecured loan, and therefore do not include corporate ratios such as balance sheet gearing. Based on the December 2008 valuation, the debt facilities are secured for amounts in excess of current drawings to the point that the group is able to draw all but £2 million of its unutilised facilities without charging further security. In addition, unsecured properties have a value in excess of £400 million at that date. The group needs a minimum security value of £1.58 billion to fully draw its £1.135 billion of committed facilities. This compares with the year end portfolio value of £2.1 billion. There is a further security cushion in that the current estimate of the group's cash requirements through to December 2010 shows that only £900 million of the committed facilities at December 2008 are required to fund the group over this period.

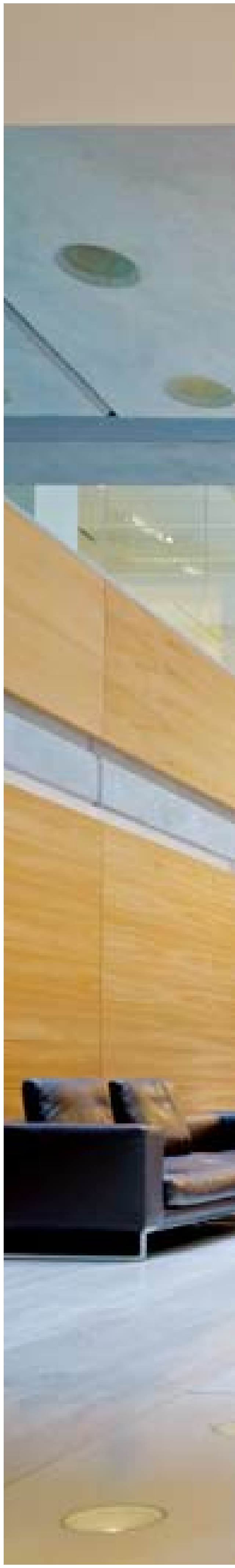
While the group's current financial position is sound, the board will continue to closely monitor its future debt requirements, portfolio values, debt covenants and the availability of finance during this period of economic turbulence. Interest covenant management is not an issue with interest rates at current levels, and the interest cover of 2.47 demonstrates the group's ability to pay its interest. A diverse tenant base, and the ability to hedge at low rates, helps to protect this position.

Liability risk management

Although the base rate currently stands at 0.5%, it began 2008 at 5.50% with the three month LIBOR, which is most commonly used by companies as a basis for borrowing money, higher than that. It was a feature of 2008 that, as banks became increasingly concerned about each other's financial stability, the LIBOR showed a considerably higher divergence from base rate than has historically been the case. While the gap has narrowed in the last quarter, the volatility of interest rates in 2008 shows why this is one of the main financial risks to which the group is exposed. Therefore, in addition to the fixed rate debt, interest rate derivatives will continue to be used to protect the group against such movements despite the fair value adjustments that appear in the group income statement. Board policy provides flexibility in the amount of interest rate hedging that can be undertaken, as the total of fixed debt and that fixed using derivative instruments can fluctuate between 40% and 75% of the total nominal value of debt, excluding leasehold liabilities. At present 70% of such debt is covered, and the spot weighted cost of debt is 4.5%.

As indicated above, derivatives are fair valued at each reporting date and the movement in value over the period is reported in the group income statement. As a result of the steep decrease in interest rates in the final quarter, the charge for 2008 was £28.1 million, compared with £5.1 million for 2007. Under IFRS, changes in fair value of the £175 million secured bond are not required to be reported in this statement. The fair value adjustment for the bond at 31st December 2008 was a gain of £18.7 million (equivalent to 18.6p per share) compared with a loss of £15.0 million, equivalent to -14.9p per share, at December 2007. Upon acquisition of LMS, the bond had to be fair valued in accordance with IFRS 3, and the resultant amount included in the opening fair value balance sheet. This valuation is being amortised over the life of the bond and the residual amount remaining in the balance sheet at 31st December 2008 was £20.9 million (21p per share) compared with £21.6 million (21p per share) at the end of the prior year.

The directors' report is continued on page 64.



The Johnson Building, Holborn

	Note	2008 £m	2007 £m
Gross property income		**119.0**	111.7
Development income		**0.5**	2.0
Other income		**0.9**	–
Total income	6	**120.4**	113.7
Property outgoings		**(14.6)**	(9.9)
Reverse surrender premium		**(8.3)**	–
Write-down of trading property		**(2.0)**	–
Total property outgoings	7	**(24.9)**	(9.9)
Net property income		**95.5**	103.8
Administrative expenses		**(18.3)**	(19.5)
Movement in valuation of cash-settled share options		**1.6**	1.6
Goodwill impairment		**–**	(353.3)
Total administrative expenses		**(16.7)**	(371.2)
Revaluation (deficit)/surplus		**(602.1)**	90.3
Profit on disposal of properties and investments	8	**1.2**	130.8
Loss from operations		**(522.1)**	(46.3)
Finance income	9	**1.7**	2.8
Exceptional finance income	9	**–**	1.5
Total finance income	9	**1.7**	4.3
Finance costs	9	**(57.2)**	(49.1)
Exceptional finance costs	9	**–**	(3.3)
Total finance costs	9	**(57.2)**	(52.4)
Movement in fair value of derivative financial instruments		**(28.1)**	(5.1)
Share of results of joint ventures	10	**(0.8)**	(0.3)
Loss before tax	11	**(606.5)**	(99.8)
Tax credit	16	**9.3**	200.7
(Loss)/profit for the year		**(597.2)**	100.9
Attributable to:			
Equity shareholders	34	**(586.4)**	97.0
Minority interest		**(10.8)**	3.9
(Loss)/earnings per share	17	**(581.99)p**	100.55p
Diluted (loss)/earnings per share	17	**(581.99)p**	100.11p

The notes on pages 28 to 63 form part of these financial statements.

Balance sheets

as at 31st December 2008

	Note	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Non-current assets					
Investment property	18	**2,068.1**	2,654.6	**–**	–
Property, plant and equipment	19	**1.2**	1.4	**0.4**	0.4
Investments	20	**7.6**	5.1	**621.5**	957.8
Deferred tax asset	30	**–**	–	**0.3**	1.3
Pension scheme surplus	15	**1.0**	2.8	**1.0**	–
Derivatives	28	**–**	1.2	**–**	–
Other receivables	22	**29.0**	23.3	**–**	–
		2,106.9	2,688.4	**623.2**	959.5
Current assets					
Trading properties	23	**7.5**	9.4	**–**	–
Trade and other receivables	24	**38.7**	61.0	**698.0**	561.5
Corporation tax asset		**–**	–	**5.7**	–
Cash and cash equivalents		**10.5**	10.3	**–**	–
		56.7	80.7	**703.7**	561.5
Non-current assets held for sale	25	**17.5**	3.4	**–**	–
		74.2	84.1	**703.7**	561.5
Total assets		**2,181.1**	2,772.5	**1,326.9**	1,521.0
Current liabilities					
Bank overdraft and loans	28	**106.6**	120.6	**104.3**	80.7
Trade and other payables	26	**47.6**	48.0	**161.7**	138.8
Corporation tax liability		**7.1**	75.4	**–**	–
Provisions	27	**0.2**	0.5	**0.2**	0.5
		161.5	244.5	**266.2**	220.0
Non-current liabilities					
Borrowings	28	**769.3**	672.5	**329.4**	297.4
Derivatives	28	**26.9**	–	**12.1**	–
Provisions	27	**1.2**	2.8	**0.7**	0.7
Deferred tax liability	30	**7.2**	10.8	**–**	–
		804.6	686.1	**342.2**	298.1
Total liabilities		**966.1**	930.6	**608.4**	518.1
Total net assets		**1,215.0**	1,841.9	**718.5**	1,002.9
Equity					
Share capital	31	**5.0**	5.0	**5.0**	5.0
Share premium	32	**156.2**	157.0	**156.2**	157.0
Other reserves	32	**923.4**	914.0	**379.2**	714.3
Retained earnings	32	**95.0**	706.0	**178.1**	126.6
Equity shareholders' funds	33	**1,179.6**	1,782.0	**718.5**	1,002.9
Minority interest	32	**35.4**	59.9	**–**	–
Total equity		**1,215.0**	1,841.9	**718.5**	1,002.9

The financial statements were approved by the board of directors and authorised for issue on 17th March 2009.

J.D. Burns, Director

C.J. Odom, Director

The notes on pages 28 to 63 form part of these financial statements.

	2008 £m	2007 £m
Group		
(Loss)/profit for the year	**(597.2)**	100.9
Actuarial (losses)/gains on defined benefit pension scheme	**(2.1)**	1.3
Foreign currency translation	**8.2**	(0.6)
Net gains recognised directly in equity	**6.1**	0.7
Total recognised income and expense relating to the year	**(591.1)**	101.6
Attributable to:		
Equity shareholders	**(580.3)**	97.7
Minority interest	**(10.8)**	3.9
Company		
Loss for the year	**(260.2)**	(114.2)
Actuarial losses on defined benefit pension scheme	**(2.1)**	–
Net losses recognised directly in equity	**(2.1)**	–
Total recognised income and expense relating to the year	**(262.3)**	(114.2)

The notes on pages 28 to 63 form part of these financial statements.

	Note	Group 2008 £m	2007 Restated* £m	Company 2008 £m	2007 Restated* £m
Operating activities					
Cash received from tenants		**109.6**	111.9	**–**	–
Development income received		**14.1**	–	**–**	–
Direct property expenses		**(22.8)**	(10.1)	**–**	–
Cash paid to and on behalf of employees		**(10.3)**	(10.2)	**(9.9)**	(6.3)
Other administrative expenses		**(5.9)**	(8.8)	**(4.8)**	(6.9)
Interest received		**2.9**	2.5	**0.2**	0.2
Interest paid		**(48.5)**	(53.4)	**(22.9)**	(25.2)
Exceptional financing costs	37	**–**	(3.3)	**–**	(3.3)
Tax expense paid in respect of operating activities		**(0.8)**	(0.2)	**–**	–
Net cash from/(used in) operating activities		**38.3**	28.4	**(37.4)**	(41.5)
Investing activities					
Acquisition of investment properties		**(31.9)**	(140.7)	**–**	–
Capital expenditure on investment properties		**(72.9)**	(65.1)	**–**	–
Disposal of investment properties		**72.6**	233.2	**–**	–
Capital expenditure on assets under construction		**–**	(3.2)	**–**	–
Disposal of assets under construction		**–**	110.1	**–**	–
Acquisition of subsidiaries (net of cash acquired)	21	**–**	(5.9)	**–**	(19.7)
Payment of subsidiaries' pre-acquisition expenses		**–**	(16.0)	**–**	–
Purchase of property, plant and equipment		**(0.2)**	(0.2)	**(0.1)**	(0.2)
Disposal of property, plant and equipment		**0.2**	0.3	**0.1**	–
Disposal of investments		**–**	9.1	**–**	–
Distributions received from joint ventures		**–**	5.7	**–**	–
Payments in relation to joint ventures		**–**	(0.3)	**–**	–
Advances to minority interest holder		**(4.2)**	(14.3)	**–**	–
Purchase of minority interest		**(0.4)**	–	**–**	–
REIT conversion charge		**(53.6)**	–	**(53.6)**	–
Tax expense paid in respect of investing activities		**(8.1)**	(11.0)	**(8.1)**	(10.2)
Net cash (used in)/from investing activities		**(98.5)**	101.7	**(61.7)**	(30.1)
Financing activities					
Net movement in intercompany loans		**–**	–	**66.0**	80.7
Net movement in revolving bank loans		**86.2**	(91.8)	**55.0**	4.0
Repayment of non-revolving bank loans		**(28.0)**	(20.0)	**–**	–
Drawdown of non-revolving bank loans		**56.8**	28.5	**28.8**	0.5
Repayment of loan notes		**(28.8)**	(0.5)	**(28.8)**	(0.5)
Redemption of debenture		**–**	(26.6)	**–**	–
Net proceeds of share issues	31	**–**	0.1	**–**	0.1
Dividends paid to minority interest holder		**(1.0)**	–	**–**	–
Dividends paid	35	**(22.5)**	(13.2)	**(22.5)**	(13.2)
Net cash from/(used in) financing activities		**62.7**	(123.5)	**98.5**	71.6
Increase/(decrease) in cash and cash equivalents in the year		**2.5**	6.6	**(0.6)**	–
Cash and cash equivalents at the beginning of the year		**4.4**	(2.2)	**(0.7)**	(0.7)
Cash and cash equivalents at the end of the year	36	**6.9**	4.4	**(1.3)**	(0.7)

*See note 37.

The notes on pages 28 to 63 form part of these financial statements.

1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Accounting Standards Board as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

The principal accounting policies are described in note 2. The accounting policies are consistent with those applied in the year ended 31st December 2007 as amended to reflect the adoption of the following new standards, amendments and interpretations which are mandatory for the year ended 31st December 2008.

IFRS 7/ IAS 39	Amendments to Reclassification of Financial Instruments (effective 1st July 2008)
IFRIC 11	IFRS 2 Group and Treasury Share Transactions (effective from 1st March 2007)

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 effective at the year end. All are deemed not relevant to the group or to have no material impact on the financial statements of the group when the relevant standards come into effect except IAS 23, which is discussed below and the revised IAS1 which will have a minor presentational impact.

IFRS 1/ IAS 27	Amendments to Cost of an Investment in a subsidiary, jointly controlled entity or associate (effective from 1st January 2009)
IFRS 2	Share-based Payment: Vesting Conditions and Cancellations (effective from 1st January 2009)
IFRS 3	Business Combinations (revised) (effective from 1st July 2009)
IFRS 8	Operating Segments (effective from 1st January 2009)
	Improvements to IFRSs (effective from 1st January 2009)
IAS 1/ IAS 32	Amendments to Presentation of Financial Statements (effective from 1st January 2009)
IAS 1	Amendments to Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1st January 2009)
IAS 23	Amendments to Borrowing Costs (effective from 1st January 2009)
IAS 27	Amendments to Consolidated and Separate Financial Statements (effective from 1st July 2009)
IAS 39	Financial instruments: Recognition and Measurement: Eligible Hedged Items (effective from 1st July 2009)
IFRIC 12	Service Concession Arrangements (effective from 1st January 2008)
IFRIC 13	Customer Loyalty Programmes (effective from 1st July 2008)
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective from 1st January 2008)
IFRIC 15	Agreements for the Construction of Real Estate (effective from 1st January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective from 1st October 2008)
IFRIC 17	Distribution of non-cash assets to owners (effective from 1st July 2009)
IFRIC 18	Transfers of Assets from Customers (effective from 1st July 2009)

UK companies can only adopt IFRSs and IFRICs after they have been endorsed by the European Union. Of the standards and interpretations listed above, the following had not yet been endorsed by the European Union at the date these accounts were signed:

IFRS 3	Business Combinations (revised)
	Improvements to IFRSs
IAS 27	Amendments to Consolidated and Separate Financial Statements
IAS 39	Financial instruments: Recognition and Measurement: Eligible Hedged Items
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfers of Assets from Customers

IAS 23 requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which are not measured at fair value. The group has chosen not to implement IAS 23 for its investment properties, which are measured at fair value. Therefore, the only impact on the results of the group would be as a result of capital expenditure in relation to the group's trading properties. These properties are complete and ready for sale. No such expenditure was made in 2008 or is expected in 2009.

Critical accounting estimates and judgements

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

2 Significant accounting policies

Basis of consolidation

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

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

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

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

Gross property income

Gross property income arises from two main sources:

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

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

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

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

Development income

Development income arises from the group's project management of the construction and letting of a property on behalf of a third party. Where the group participates in the uplift in value of the property, revenue is recognised in accordance with IAS 18, Revenue, and is based on the directors' assessment of the stage of completion of the project, the future costs and the expected value of the completed building following discussion with external advisors and valuers.

Other income

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

Expenses

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

(ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the group income statement.

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

2 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 7th 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.

Pensions

(i) 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.

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

Business combinations

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

Investment property

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

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

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

(iii) Disposal – The disposal of investment properties is accounted for on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year.

(iv) Development – When the group begins to redevelop an existing investment property for continued use as an investment property, the property remains 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 re-measured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

2 Significant accounting policies (continued)

Property, plant and equipment

(i) Assets under construction – Property assets acquired with the intention of subsequent development as investment properties are included as 'Assets under construction' within property, plant and equipment, until the construction or development is completed, at which time they are reclassified as investment properties. Assets under construction are included in the balance sheet at fair value, determined by an independent valuer on the same basis as used for investment properties. If the fair value increases, this increase is credited directly to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset which previously had been charged to the group income statement. If the fair value decreases, this decrease is recognised in the group income statement, except to the extent that it reverses previous revaluation increases of the same asset which have been credited to the revaluation reserve, in which case it is charged against the revaluation reserve.

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

Investments

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

Trading properties

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

Financial assets

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

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

Financial liabilities

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

(ii) Debenture loan and bonds – The debenture loan is 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 debenture on an effective interest basis. Interest payable to debenture holders is expensed in the year to which it relates.

On redemption, all remaining unamortised discount and costs on issue are recognised together with the premium and the costs of redemption in finance costs in the group income statement as an exceptional item in accordance with the accounting policy below.

(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.

2 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 charged or credited in the group income statement, except when it relates to items charged or credited directly to equity, in which case it is also dealt with in equity.

Dividends

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

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the group and which, individually or, if a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

Foreign currency translation

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

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

3 Significant judgments, key assumptions and estimates

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

Trading properties

Trading properties are carried at the lower of cost and net realisable value. The latter is assessed by the group having regards to suitable external advice and knowledge of recent comparable transactions.

Trade receivables

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

Exceptional items

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

Investment property valuation

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

Outstanding rent reviews

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

3 Significant judgments, key assumptions and estimates (continued)

Compliance with the real estate investment trust taxation regime

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

- At the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the group's assets.
- At least 75% of the group's total profits must arise from the tax exempt business.
- At least 90% of the profit of the property rental 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 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. This note 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.

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 discussion has been made of the company.

Principal financial instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash at bank
- Bank overdrafts
- Trade and other payables
- Floating rate bank loans
- Secured bonds
- Interest rate swaps
- Interest rate caps

General objectives, policies and processes

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

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

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from its lease contracts. It is group policy to assess the credit risk of new tenants before entering 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 alternatively a guarantee is obtained.

As the group operates predominately 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.

4 Financial instruments – risk management (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 reduced by the short periods that money is on deposit at any one time.

The group does not enter into derivatives to manage credit risk.

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 24.

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 40% and 75% of external group borrowings (excluding finance lease payables) are fixed rate borrowings. Where the group wishes to vary the amount of external fixed rate debt it holds (subject to it being at least 40% and no more than 75% of expected group borrowings, as noted above), the group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the board accepts that this policy neither protects the group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

During both 2008 and 2007, the group's borrowings at variable rate were denominated in sterling.

The group monitors the interest rate exposure on a regular basis. A sensitivity analysis was performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates and this would result in an increase of £1.4m (2007: £1.4m) or a decrease of £1.5m (2007: £1.5m).

The group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 28). Predominantly, the group 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 discussed in the 'Fair value and cash flow interest rate risk' section above.

The executive management receives rolling three-month cash flow projections on a monthly basis and three-year projections of loan balances on a regular basis as part of the group's forecasting processes. At the balance sheet date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The group's loan facilities are spread across a range of UK banks so as to minimise any potential concentration of risk.

The liquidity risk of the group is managed centrally by the finance department.

Capital disclosures

The group's capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and minority interest).

The group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- to provide an above average annualised total return to shareholders.

The group sets the amount of capital it requires in proportion to risk. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

4 Financial instruments – risk management (continued)

Capital disclosures (continued)

Consistent with others in its industry, the group monitors capital on the basis of balance sheet gearing and property gearing (defined on page 95).

During 2008, the group's strategy, which was unchanged from 2007, was to maintain the balance sheet gearing below 80% in normal circumstances. The balance sheet gearing at 31st December 2008 and at 31st December 2007 were as follows:

	2008 £m	2007 £m
Total debt	**875.9**	793.1
Less: cash and cash equivalents	**(10.5)**	(10.3)
Net debt	**865.4**	782.8
Net assets	**1,215.0**	1,841.9
Balance sheet gearing	**71.2%**	42.5%

The property gearing at 31st December 2008 and 31st December 2007 were as follows:

	2008 £m	2007 £m
Net debt	**865.4**	782.8
Fair value adjustment to secured bond	**(19.3)**	(19.9)
Leasehold liabilities	**(8.6)**	(9.0)
Drawn facilities	**837.5**	753.9
Fair value of investment property	**2,108.0**	2,671.7
Property gearing	**39.7%**	28.2%

Profit and loss gearing is 1.88 (2007: 1.81) and is defined on page 95.

From 2009 onwards, the definition of this measure will be changed in order to align it more closely to the group's most commonly used interest cover ratio covenant. The future definition is also set out on page 95 and the revised figures are derived below:

	2008 £m	2007 £m
Gross property income	**119.0**	111.7
Surrender premiums	**(0.2)**	(5.7)
Ground rent	**(1.3)**	(1.0)
Net rental income	**117.5**	105.0
Net finance costs	**55.5**	46.3
Foreign exchange (loss)/gain	**(8.3)**	0.4
Net pension return	**0.3**	0.1
Finance lease cost	**(0.6)**	(0.6)
Non-cash amortisation*	**0.6**	0.6
Net interest payable	**47.5**	46.8
Profit and loss gearing	**2.47**	2.24

*Amortisation of bond fair value and issue costs.

5 Segmental information

During the year, the group had only one (2007: one) business activity, that being property investment, refurbishment and redevelopment. It operates only in the United Kingdom and the directors consider that all properties carry a similar risk profile.

6 Income

Gross property income includes surrender premiums received from tenants during 2008 of £0.2m (2007: £5.7m). The balance of £118.8m (2007: £106.0m) is derived solely from rental income from the group's properties. Of these amounts, £4.2m (2007: £3.9m) was derived from a lease to BT of the Angel Building, EC1, where in March 2007, the group entered into an arrangement with BT to restructure the lease arrangements such that the group could obtain possession of the building whilst maintaining rental income from BT until March 2010 (albeit that if the group disposed of this property, the right to that rental income would pass to the purchaser). The group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the group's entitlement to this rental income is linked to its continued ownership of the property, rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments).

Development income of £0.5m (2007: £2.0m) is the proportion of the total profit share earned by the group from the project management of the construction and letting of a property on behalf of a third party.

Other income of £0.9m (2007: £nil) relates to fees and commissions earned in relation to the management of the group's properties.

7 Property outgoings

	2008 £m	2007 £m
Ground rents	**0.7**	0.4
Reverse surrender premium	**8.3**	–
Write-down of trading property	**2.0**	–
Other property costs	**13.9**	9.5
	24.9	9.9

Property outgoings include £0.1m (2007: £1.4m) of costs relating to properties which produced no property income during the year.

8 Profit on disposal of properties and investments

	2008 £m	2007 £m
Investment property		
Disposal proceeds	**72.6**	233.6
Carrying value	**(71.4)**	(157.4)
	1.2	76.2
Assets under construction		
Disposal proceeds	**–**	109.9
Carrying value	**–**	(56.3)
	–	53.6
Investments		
Disposal proceeds	**–**	9.1
Carrying value	**–**	(8.1)
	–	1.0
Total		
Disposal proceeds	**72.6**	352.6
Carrying value	**(71.4)**	(221.8)
	1.2	130.8

The profit on disposal of £1.2m (2007: £130.8m) contains a loss on disposal of £0.2m (2007: profit of £112.6m) which relates to properties acquired as part of the acquisition of London Merchant Securities plc (see note 21). There were no significant profits or losses in respect of any individual properties arising in the current year that require disclosure. Further explanation regarding the £112.6m profit realised in 2007 is given below:

- The £53.6m profit recognised on disposal of assets under construction relates solely to the disposal of Greenwich Reach, SE10. This is an eight acre site on the banks of the Thames with residential planning consent at the time of the acquisition, which was sold for £109.9m, net of costs. Prior to sale, the group reduced both the planning and commercial risks associated with this site.
- Of the balance of £59.0m, £49.7m related to the disposals described below, with the disposal of a further 21 properties accounting for the remaining £9.3m.
  - 158-166 Brompton Road, SW3: This prime Knightsbridge office and retail property was disposed for £44.3m, net of costs. Prior to disposal, the group resolved certain residential legal issues to enable the full development potential to be realised;
  - Winchester Road, NW3: Various issues were resolved by the group post-acquisition at this property in respect of the residential planning permission which would enable a development to commence. It was sold for £17.9m, net of costs;
  - 3-4 South Place, EC2 and Dukes Lane & 52-58 Middle Street, Brighton: These properties, where initial planning studies had identified development potential, were sold for £18.0m and £19.5m, net of costs, respectively; and
  - 70-72 & 74 Wigmore Street, W1: These properties were acquired by the freeholder of the building for £9.4m, net of costs, which the group considered to be a specialist purchaser.

9 Finance income and costs

	2008 £m	2007 £m
Finance income		
Interest on development funding	**0.1**	1.1
Return on pension plan assets	**0.8**	0.6
Foreign exchange gain	**–**	0.4
Bank interest received	**–**	0.1
Other	**0.8**	0.6
	1.7	2.8
Exceptional finance income		
Profit on redemption of debentures	**–**	1.5
Total finance income	**1.7**	4.3
Finance costs		
Bank loans and overdraft wholly repayable within five years	**35.3**	27.0
Bank loans not wholly repayable within five years	**0.8**	9.4
Loan notes	**0.9**	1.5
Secured bond	**10.8**	9.9
Mortgages	**–**	0.1
Finance leases	**0.6**	0.6
Pension interest costs	**0.5**	0.5
Foreign exchange loss	**8.3**	–
Other	**–**	0.1
	57.2	49.1
Exceptional finance costs		
Cost of unused acquisition facility	**–**	3.3
Total finance costs	**57.2**	52.4

The exceptional profit of £1.5m in 2007 arose following the payment of a £6.6m premium on the redemption of a debenture. The debenture was fair valued at £8.1m on the acquisition of London Merchant Securities plc. The year to 31st December 2007 also contained exceptional finance costs of £3.3m which was the cost of acquisition finance.

10 Share of results of joint ventures

	2008 £m	2007 £m
Loss from disposals of investment properties	**–**	(0.7)
Revaluation deficit	**(1.3)**	–
Other profit from operations after tax	**0.5**	0.4
	(0.8)	(0.3)

See note 20 for further details of the group's joint ventures.

11 Loss before tax

	2008 £m	2007 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.2**	0.2
Contingent rent payable under property finance leases	**0.7**	0.4
Auditors' remuneration		
Audit – group	**0.2**	0.2
Audit – group (prior year)	**0.2**	–
Audit – subsidiaries	**0.1**	0.1
Tax compliance services	**0.2**	0.2

12 Directors' emoluments

	2008 £m	2007 £m
Remuneration for management services	**2.6**	3.1
Adjustment in respect of prior years' incentive schemes	**0.4**	0.1
Non-executive directors' remuneration	**0.5**	0.4
Gain on exercise of share options	**1.0**	1.7
Pension contributions	**0.5**	0.4
	5.0	5.7
National insurance contributions	**0.3**	0.4
	5.3	6.1

Included within the figures shown in note 13 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 £1.2m (2007: £0.9m) and a credit of £1.6m (2007: £1.6m) 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 on directors' remuneration on pages 76 to 83. The only key management personnel are the directors. An amount of £0.5m was paid during 2007 to a director as a compensation payment under the terms of his original contract with London Merchant Securities plc, and was accrued in the fair value acquisition balance sheet (see note 21).

13 Employees

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Staff costs, including those of directors:				
Wages and salaries	**7.4**	7.2	**7.1**	5.9
Social security costs	**1.0**	1.1	**1.0**	0.8
Pension costs	**0.9**	0.9	**0.7**	0.7
Share-based payments expense relating to equity-settled schemes	**1.5**	1.1	**1.5**	1.1
Share-based payments credit relating to cash-settled schemes	**(1.6)**	(1.6)	**–**	–
	9.2	8.7	**10.3**	8.5

The average number of employees in the group during the year, excluding directors, was 60 (2007: 56). The average number of employees in the company during the year, excluding directors, was 56 (2007: 38). All were employed in administrative roles.

14 Share-based payments

Details of the options held by directors and employees under the group's share option schemes are given in the report on directors' remuneration on pages 76 to 83.

Group and company – equity-settled option scheme

No options were granted during 2008 or 2007.

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 (see note 21).

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31st December 2008 of £7.25 (2007: £14.14) and a dividend yield of 3% (2007: 3%) were used together with risk free interest rates of between 1.7% and 2.6% (2007: between 4.4% and 4.8%) 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 48% p.a., 38% p.a. and 31% p.a. (2007: 37% p.a., 27% p.a. and 25% p.a.) have been used for options with lives of one year, three years and five years (and over) respectively.

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 the 31st December 2008, 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.

15 Pension costs

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

Defined contribution plan

The group and company operate a defined contribution pension plan. The total expense relating to this plan in the current year was £0.7m (2007: £0.7m).

Defined benefit plan

The defined benefit plan was transferred to the company from another group subsidiary at 1st January 2008 and therefore the 2007 information below relates only to the group and not the company.

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 Phoenix Life Limited and F&C Investments plus annuity policies held in the name of the Trustees.

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 6.75% p.a. (2007: 7.3% p.a.) and that salaries with be increased at 4.4% p.a. (2007: 4.7% p.a.). The market value of assets of the scheme at 31st December 2008 was £8.7m (2007: £11.6m) and the actuarial value of those assets on an ongoing basis represented 113% (2007: 132%) of the benefit of £7.7m (2007: £8.8m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £1.0m (2007: £2.8m).

Defined benefit obligations

	2008 £m	2007 £m
Present value of funded obligations	**(7.7)**	(8.8)
Fair value of plan assets	**8.7**	11.6
Recognised surplus for defined benefit obligations	**1.0**	2.8

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

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

Expense recognised in the income statement

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

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

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

15 Pension costs (continued)

Change in the fair value of plan assets

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

The actual return on the plan assets for the year was £(2.6)m (2007: £0.8m). 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

	2008 £m	2007 £m
At 1st January	**8.8**	–
Arising on acquisition of subsidiary	**–**	9.4
Service cost	**0.1**	0.1
Interest cost	**0.5**	0.5
Member contributions	**–**	–
Benefits paid	**(0.4)**	(0.1)
Actuarial gains	**(1.3)**	(1.1)
At 31st December	**7.7**	8.8

Experience gains and losses

	2008 £m	2007 £m
Experience (losses)/gains on plan assets	**(3.4)**	0.2
Experience gains on plan liabilities	**(1.3)**	(1.1)

Analysis of plan assets

	2008 £m	2007 £m
Equities	**6.6**	9.7
Bonds	**1.3**	0.8
Property	**0.1**	0.1
Cash	**0.7**	1.0
Total	**8.7**	11.6

Principal actuarial assumptions

	2008 % p.a.	2007 % p.a.
Discount rate at 31st December	**6.3**	5.9
Expected return on plan assets at 31st December	**6.8**	7.3
Future salary increases	**4.4**	4.7
Inflation	**2.9**	3.2
Future pension increases	**5.0**	5.0

16 Tax credit

	2008 £m	2007 £m
Corporation tax (credit)/expense		
UK corporation tax and income tax on profit for the year	**1.4**	33.5
REIT conversion charge	**–**	53.6
Adjustment for (over)/under provision in prior years	**(7.1)**	0.3
	(5.7)	87.4
Deferred tax credit		
Origination and reversal of temporary differences	**(3.6)**	(287.4)
Change in tax rates	**–**	(0.7)
	(3.6)	(288.1)
	(9.3)	(200.7)

Of the £7.1m over provision (2007: £0.3m under provision) in prior years, £3.4m (2007: £nil) relates to losses not recognised in prior years due to the uncertainty over their availability.

The tax credit for 2008 is lower (2007: higher) than the standard rate of corporation tax in the UK.
The differences are explained below:

	2008 £m	2007 £m
Loss before tax	**(606.5)**	(99.8)
Expected tax credit based on the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	**(172.9)**	(29.9)
Difference between tax and accounting profit on disposals	**0.6**	(9.4)
Goodwill impairment	**–**	106.0
REIT conversion charge	**–**	53.6
Revaluation deficit/(gain) attributable to REIT properties	**171.6**	(24.1)
Deferred tax released as a result of REIT conversion	**–**	(288.7)
Other differences	**(1.5)**	(8.5)
Tax credit on current year's loss	**(2.2)**	(201.0)
Adjustments in respect of prior years' tax	**(7.1)**	0.3
	(9.3)	(200.7)

17 (Loss)/earnings per share

	(Loss)/ profit for the year £m	Weighted average number of shares '000	Earnings per share p
Year ended 31st December 2008	(586.4)	100,758	**(581.99)**
Adjustment for dilutive share-based payments	–	–	**–**
Diluted	(586.4)	100,758	**(581.99)**
Year ended 31st December 2007	97.0	96,473	100.55
Adjustment for dilutive share-based payments	–	418	(0.44)
Diluted	97.0	96,891	100.11

The diluted loss per share for the year to 31st December 2008 has been restricted to a loss of 581.99p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share. At 31st December 2008, there were 435,000 share options and contingently issuable shares which could potentially dilute earnings in the future.

	(Loss)/ profit for the year £m	Weighted average number of shares '000	Earnings per share p
Year ended 31st December 2008	(586.4)	100,758	**(581.99)**
Adjustment for:			
Disposal of properties and investments	(6.2)	–	**(6.15)**
Group revaluation deficit	597.9	–	**593.40**
Joint venture revaluation deficit	1.3	–	**1.29**
Fair value movement in derivative financial instruments	28.1	–	**27.89**
Development income	(0.5)	–	**(0.50)**
Minority interests in respect of the above	(11.2)	–	**(11.11)**
Recurring	23.0	100,758	**22.83**
Adjustment for dilutive share-based payments	–	435	**(0.10)**
Diluted recurring	23.0	101,193	**22.73**
Year ended 31st December 2007	97.0	96,473	100.55
Adjustment for:			
Disposal of properties and investments	(98.2)	–	(101.79)
Disposal of joint venture property	0.7	–	0.72
Group revaluation surplus	(89.0)	–	(92.26)
Fair value movement in derivative financial instruments	5.1	–	5.28
Deferred tax released as a result of REIT conversion	(288.7)	–	(299.25)
REIT conversion charge	53.6	–	55.56
Goodwill impairment	353.3	–	366.22
Development income	(1.4)	–	(1.45)
Exceptional finance income and costs	(1.2)	–	(1.24)
Minority interests in respect of the above	2.7	–	2.80
Recurring	33.9	96,473	35.14
Adjustment for dilutive share-based payments	–	418	(0.15)
Diluted recurring	33.9	96,891	34.99

The recurring earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, the profit or loss after tax arising from the disposal of properties and investments, the development income, and any exceptional costs and income in order to show the underlying trend. In addition, the conversion charge and the release of deferred tax related to the transfer to REIT status, and the impairment of goodwill resulting from the acquisition of London Merchant Securities plc have also been excluded.

18 Investment property

	Freehold £m	Leasehold £m	Total £m
Group			
Carrying value			
At 1st January 2008	2,224.1	430.5	2,654.6
Transfer	(15.0)	15.0	–
Acquisitions	27.8	4.1	31.9
Capital expenditure	61.1	11.9	73.0
Additions	88.9	16.0	104.9
Disposals	(59.8)	(11.6)	(71.4)
Revaluation	(515.7)	(86.4)	(602.1)
Movement in grossing up of headlease liabilities	–	(0.4)	(0.4)
At 31st December 2008	**1,722.5**	**363.1**	**2,085.6**
Disclosed in:			
Investment property	**1,705.0**	**363.1**	**2,068.1**
Non-current assets held for sale	**17.5**	**–**	**17.5**
	1,722.5	**363.1**	**2,085.6**
At 1st January 2007	1,025.2	248.8	1,274.0
Arising on acquisition of subsidiary	1,104.6	141.0	1,245.6
Acquisitions	120.5	21.0	141.5
Capital expenditure	57.1	3.9	61.0
Additions	1,282.2	165.9	1,448.1
Disposals	(151.2)	(6.2)	(157.4)
Revaluation	67.9	22.4	90.3
Movement in grossing up of headlease liabilities	–	(0.4)	(0.4)
At 31st December 2007	2,224.1	430.5	2,654.6

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total £m
At 31st December 2008			
Fair value	1,752.1	355.9	2,108.0
Adjustment for rents recognised in advance	(29.6)	(1.4)	(31.0)
Adjustment for grossing up of headlease liabilities	–	8.6	8.6
Carrying value	1,722.5	363.1	2,085.6
At 31st December 2007			
Fair value	2,249.0	422.7	2,671.7
Adjustment for rents recognised in advance	(24.9)	(1.2)	(26.1)
Adjustment for grossing up of headlease liabilities	–	9.0	9.0
Carrying value	2,224.1	430.5	2,654.6

The investment properties were revalued at 31st December 2008 by external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued properties to a value of £2,079.6m (2007: £2,647.9m); other valuers, £28.4m (2007: £23.8m).

Additional information regarding the basis of valuation is provided on page 69.

At 31st December 2008, the historical cost of investment property owned by the group was £2,054.5m (2007: £1,990.7m).

19 Property, plant and equipment

	Assets under construction £m	Plant and equipment £m	Total £m
Group			
At 1st January 2007	–	0.3	0.3
Arising on acquisition of subsidiary	53.1	1.6	54.7
Capital expenditure	3.3	0.2	3.5
Additions	56.4	1.8	58.2
Disposals	(56.4)	(0.5)	(56.9)
Depreciation	–	(0.2)	(0.2)
At 31st December 2007	–	1.4	1.4
Additions	–	0.2	0.2
Disposals	–	(0.2)	(0.2)
Depreciation	–	(0.2)	(0.2)
At 31st December 2008	**–**	**1.2**	**1.2**
Net book value at 31st December 2008			
Cost or valuation	–	3.0	3.0
Accumulated depreciation	–	(1.8)	(1.8)
	–	1.2	1.2
Net book value at 31st December 2007			
Cost or valuation	–	3.1	3.1
Accumulated depreciation	–	(1.7)	(1.7)
	–	1.4	1.4

	Plant and equipment £m
Company	
At 1st January 2007	0.3
Additions	0.2
Depreciation	(0.1)
At 31st December 2007	0.4
Additions	0.1
Depreciation	(0.1)
At 31st December 2008	**0.4**
Net book value at 31st December 2008	
Cost or valuation	1.3
Accumulated depreciation	(0.9)
	0.4
Net book value at 31st December 2007	
Cost or valuation	1.4
Accumulated depreciation	(1.0)
	0.4

20 Investments

Group

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

	2008 £m	2007 £m
At 1st January	**5.1**	5.4
Acquired on acquisition of London Merchant Securities plc (see note 21)	**–**	17.5
Additions	**0.3**	0.7
Disposal (see note 8)	**–**	(8.1)
Transfer from/(to) non-current assets held for sale (see note 25)	**3.4**	(3.4)
Distributions received	**(0.4)**	(5.7)
Amounts written off	**–**	(0.3)
Share of results of joint ventures (see note 10)	**(0.8)**	(0.3)
Transfer of deferred tax balance (see note 30)	**–**	(0.7)
At 31st December	**7.6**	5.1

The following amounts have been recognised in the group's balance sheet and income statement relating to these joint ventures.

	2008 £m	2007 £m
Non-current assets	**18.6**	8.0
Current assets	**2.2**	1.8
Current liabilities	**(5.2)**	(1.2)
Non-current liabilities	**(8.0)**	(3.5)
Net assets	**7.6**	5.1
Assets held for sale	**–**	3.4
Total net assets	**7.6**	8.5
Income	**1.1**	19.0
Expenses	**(1.9)**	(19.3)
Loss for the year	**(0.8)**	(0.3)

	Subsidiaries £m	Joint ventures £m	Total £m
Company			
Shares in subsidiaries:			
At 1st January 2007	191.6	–	191.6
Acquisition of subsidiary	965.6	–	965.6
Impairment	(200.3)	–	(200.3)
At 31st December 2007	956.9	–	956.9
Impairment	(336.3)	–	(336.3)
At 31st December 2008	620.6	–	620.6
Loans:			
At 1st January 2007, 31st December 2007 and 31st December 2008	–	0.9	0.9
At 31st December 2008	**620.6**	**0.9**	**621.5**
At 31st December 2007	956.9	0.9	957.8

At 31st December 2008 and 31st December 2007, the carrying value of the investment in London Merchant Securities Ltd was reviewed in accordance with IAS 36, Impairment of Assets. A review for impairment of the investment in subsidiaries was carried out in accordance with IAS 36 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 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 fall in the value of the investment properties, there has been a related reduction in the net asset value of the subsidiaries which has been reflected as an impairment in the company income statement of £336.3m (2007: £200.3m).

21 Acquisition of subsidiaries

The whole of the issued share capital of London Merchant Securities plc (LMS), a property investment company, was acquired on 1st February 2007 for a total cost of £965.6m.

	£m
Cost of acquisition:	
Equity	912.9
Loan notes	32.5
Cash	12.2
Directly attributable acquisition costs	8.0
	965.6

The equity consideration was satisfied by Derwent London plc issuing 46,910,232 ordinary shares at a price of £19.46 on 1st February 2007. This was the closing market price of the company's 5p ordinary shares on 31st January 2007. This issue price consists of the nominal value of the ordinary shares of £0.05 and a share premium of £19.41.

Directly attributable acquisition costs are those charged by the company's advisers in performing due diligence activities and producing the acquisition documents.

The net assets acquired at 1st February 2007 were:

	Book value of net assets acquired £m	Fair value of net assets acquired £m
Non-current assets		
Investment property	1,245.6	1,245.6
Property, plant and equipment	53.9	54.7
Investments	18.0	17.5
Pension scheme surplus	1.4	1.4
Deferred tax asset	12.0	12.0
Derivatives	6.1	6.1
Other receivables	6.2	6.2
	1,343.2	1,343.5
Current assets		
Trading property	1.3	9.4
Trade and other receivables	9.4	8.8
Cash and cash equivalents	13.9	13.9
	24.6	32.1
Total assets	1,367.8	1,375.6
Current liabilities		
Bank loans	(4.6)	(4.6)
Trade and other payables	(39.8)	(40.9)
	(44.4)	(45.5)
Non-current liabilities		
Borrowings	(480.4)	(510.6)
Deferred tax liability	(148.8)	(144.4)
Other	(6.8)	(6.8)
	(636.0)	(661.8)
Total liabilities	(680.4)	(707.3)
Net assets acquired	687.4	668.3
Minority interests	(56.0)	(56.0)
Group's interest in the total net assets acquired	631.4	612.3
Goodwill on acquisition		353.3
Cost of acquisition		965.6

21 Acquisition of subsidiaries (continued)

During 2008, there has been much attention paid to the issues concerning the origin of goodwill in financial statements and the processes by which it is subsequently impairment tested. In order to provide shareholders with better information on these issues in connection with the goodwill arising upon the acquisition of LMS, the wording of this note has been enhanced.

Adjustments from book value to fair value include those arising from the fair value adjustments to property, plant and equipment, trading property and debt. Adjustments arising from the application of Derwent London's accounting policies were made to the book value figures.

The acquisition, which gave rise to goodwill of £353.3m, was of a group which owned a portfolio of properties which complemented Derwent London's existing operations and expanded its reach into other key areas of London. The property portfolio held by LMS was in certain respects diverse, both in geographical location and type of property (residential, retail and office), but many of the properties fitted well with the niche market in which Derwent London operated. However, the commercial strategy of LMS was different from that of Derwent London in that, whilst LMS sought mainly to extract value through maintaining cashflows from existing lease agreements, Derwent London seeks actively to maximise the value that can be derived from a property portfolio.

Therefore, the purchase of LMS presented the group with an almost unique opportunity to acquire a range of properties of a size and nature that it believed would generate significant additional value through application of its active management and redevelopment approach. This would be achieved through Derwent London's strategy of applying its design-led philosophy, including transforming and revitalising properties to provide highly desirable and modern office environments, as well as by innovative design solutions to deliver new developments and refurbishment schemes.

The acquisition structure involved a purchase consideration which was settled primarily through the issue of equity shares. A key aspect of the acquisition was that the terms of the share for share exchange with the LMS shareholders were such that the dilution of the existing shareholders in the group did not exceed an acceptable threshold. In view of this focus, the group's desire to acquire the LMS portfolio, and the fact that the acquisition did not complete until 1st February 2007 (having been announced on 14th November 2006), both the amount of consideration paid for LMS and the fair values of the net assets acquired were not determined until the completion date.

The acquisition of LMS was completed at a time when, unusually in historical terms, the group's share price was above its net asset value. The directors believe that this had been influenced by the introduction of the REIT regime on 1st January 2007 which, in conjunction with substantial and sustained increases in property values and the terms of the acquisition referred to above, resulted in the acquisition cost being significantly in excess of the net asset value of LMS.

A review was carried out in order to determine whether it would be appropriate for any separable intangible assets to be recognised in accordance with IFRS 3. No such intangible assets were identified with any material value and, in consequence, the entire excess amount of consideration above the net assets acquired of £353.3m was allocated to goodwill.

Impairment

After the acquisition of LMS, a review for impairment was carried out in accordance with IAS 36, Impairment of Assets on both value in use and fair value less cost to sell bases. The acquired business was subsumed within Derwent London's existing operations, as the group has only one operating segment and, in consequence, the goodwill was allocated to the entire business (both existing and acquired). The group's cash generating units comprise each individual property, and it is not possible to allocate goodwill at this level.

This review indicated that an impairment in the carrying value of goodwill of £353.3m was appropriate, and this amount was charged to the group income statement in 2007.

Individual properties

For each of the group's individual properties, fair value less cost to sell was determined by CB Richard Ellis Limited in accordance with the Appraisal and Valuation Standards as published by the Royal Institution of Chartered Surveyors. The carrying value of goodwill was not considered as part of this test as it was not possible to allocate goodwill at individual property level.

In addition, the value in use of each property was determined by reference to forecasts. The main assumptions were a forecast period of 10 years, as the group believes this longer period is appropriate to properly assess the value in use of the properties; no yield shift; rent reverts to estimated rental value (ERV) on review; no movement in ERV over the period; no tenants exercise their break clauses and all renew their leases; properties are sold at the end of the 10 year period at their current value and estimated renewal and review fees were included. In addition, no enhancements to the properties were included that arose from future capital expenditure. Properties identified for disposal or development that had been acquired as part of the LMS portfolio were assumed to be sold at their current value at the start of the projection period. Projections were discounted at 8.66% being the directors' best assessment of the post REIT weighted average cost of capital for the group.

These tests indicated that the carrying value of the properties was not impaired on an individual property basis.

Goodwill

As goodwill was not allocated to each of the cash generating units (the individual properties), IAS 36 requires a second 'top down' impairment test to be carried out at the lowest level at which goodwill can be allocated. As noted above, this was to the group's entire business.

The directors note that as at the date of completion of the acquisition of LMS, the carrying amount of goodwill could be regarded as being supported on the basis of fair value less cost to sell, as the group's share price was substantially in excess of net asset value. The directors consider that the share price quoted on the London Stock Exchange can be used as being indicative of the fair value of the group.

However, at 30th June 2007, the balance sheet date of the group's interim report, the share price had decreased such that the market capitalisation of the group was below its net asset value (after deducting the full amount of capitalised goodwill).

21 Acquisition of subsidiaries (continued)

The impairment tests carried out at an individual property (cash generating unit) level indicated that the carrying values of the properties were not impaired on an individual basis. However, because the fair value of the group no longer supported the capitalised goodwill, the full amount of £353.3m was considered to be impaired and this amount was charged to the group income statement.

Details of the movement in goodwill and related impairments are set out below:

	£m
Cost	
At 1st January 2007	–
Arising on acquisition of LMS	353.3
At 31st December 2007	353.3
At 1st January 2008 and 31st December 2008	**353.3**
Impairment	
At 1st January 2007	–
Arising in year	(353.3)
At 31st December 2007	(353.3)
At 1st January 2008 and 31st December 2008	**(353.3)**
Net book value	
At 31st December 2007	–
At 31st December 2008	**–**

If the date for this acquisition had been 1st January 2007, then the group property income in 2007 would have increased by £4.6m. As the fair value adjustments and adjustments arising from the application of Derwent London's accounting policies made above have not been made to the results of LMS for 31st December 2006 it is impractical to assess the impact on the profit for the year arising from a 1st January 2007 acquisition date. The profit for the year ended 31st December 2007 of £100.9m, which is after recognising the £353.3m of goodwill impairment, included post acquisition profits of £203.0m for LMS.

A number of investment properties and assets under construction, included within property, plant and equipment, were disposed of as they were not consistent with the group's objectives and a disposal programme was implemented. Details and explanation of the profits arising on these disposals is set out in note 8.

22 Other receivables (non-current)

	Group **2008 £m**	2007 £m	Company **2008 £m**	2007 £m
Accrued income	**29.0**	23.3	**–**	–

23 Trading properties

At 31st December 2008, trading properties were written down by £2.0m (2007: £nil) to their net realisable value.

24 Trade and other receivables

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Trade receivables	**14.9**	16.5	**–**	–
Amounts owed by subsidiaries	**–**	–	**696.9**	559.9
Other receivables	**12.2**	21.9	**0.1**	0.6
Prepayments	**7.1**	4.9	**1.0**	1.0
Amounts recoverable under contract	**–**	13.6	**–**	–
Accrued income	**4.5**	4.1	**–**	–
	38.7	61.0	**698.0**	561.5

	2008 £m	2007 £m
Group trade receivables are split as follows:		
less than three months due	**13.7**	11.8
between three and six months due	**0.2**	4.1
between six and twelve months due	**1.0**	0.6
	14.9	16.5

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

	2008 £m	2007 £m
At 1st January	**1.2**	–
Arising on acquisition of subsidiary	**–**	1.0
Additions	**0.8**	0.9
Released	**(0.7)**	(0.7)
At 31st December	**1.3**	1.2
The provision for bad debts is split as follows:		
less than six months due	**0.3**	–
between six and twelve months due	**0.1**	0.7
over twelve months due	**0.9**	0.5
	1.3	1.2

None of the amounts included in other receivables and amounts recoverable under contracts for 2008 and 2007 are past due and therefore no ageing has been shown.

25 Non-current assets held for sale

	2008 £m	2007 £m
Investment properties (note 18)	**17.5**	–
Investments (note 20)	**–**	3.4
	17.5	3.4

Compulsory purchase orders issued under the Crossrail Act 2008 were received for two of the group's freehold investment properties on 19th December 2008 and on 16th January 2009, title for these properties passed to the acquiring authority, The Secretary of State for Transport. Therefore, at 31st December 2008, these properties have been recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale.

At 31st December 2007, the directors considered that the disposal of the group's holding in Euro Mall Sterboholy a.s. (see note 20) in the first half of 2008 was highly probable and, therefore, was not accounted for by the equity method, in accordance with IFRS 5. This sale did not proceed and at 31st December 2008, there is no expectation of a sale in the next 12 months and, therefore the asset has been transferred back to investments. The classification of the asset has no impact on its value and its results.

26 Trade and other payables

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Trade payables	**2.3**	5.8	**0.3**	0.4
Amounts owed to subsidiaries	**–**	–	**154.3**	131.4
Other payables	**0.2**	0.2	**–**	–
Sales and social security taxes	**1.0**	3.2	**0.8**	0.9
Accruals	**10.6**	8.9	**6.3**	6.1
Deferred income	**33.5**	29.9	**–**	–
	47.6	48.0	**161.7**	138.8

27 Provisions

	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2008 Total £m	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2007 Total £m
Group								
At 1st January	2.1	0.7	0.5	**3.3**	–	0.7	0.7	1.4
Arising on acquisition	–	–	–	**–**	3.9	–	–	3.9
Released to the income statement	(1.6)	–	–	**(1.6)**	(1.6)	–	–	(1.6)
Utilised in year	–	(0.1)	(0.2)	**(0.3)**	(0.2)	–	(0.2)	(0.4)
At 31st December	0.5	0.6	0.3	**1.4**	2.1	0.7	0.5	3.3
Due within one year	–	0.1	0.1	**0.2**	–	0.1	0.4	0.5
Due after one year	0.5	0.5	0.2	**1.2**	2.1	0.6	0.1	2.8
	0.5	0.6	0.3	**1.4**	2.1	0.7	0.5	3.3
Company								
At 1st January		0.7	0.5	**1.2**		0.7	0.7	1.4
Utilised in year		(0.1)	(0.2)	**(0.3)**		–	(0.2)	(0.2)
At 31st December		0.6	0.3	**0.9**		0.7	0.5	1.2
Due within one year		0.1	0.1	**0.2**		0.1	0.4	0.5
Due after one year		0.5	0.2	**0.7**		0.6	0.1	0.7
		0.6	0.3	**0.9**		0.7	0.5	1.2

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

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 will be exercised; and
- the prevailing rate of national insurance at the date of exercise.

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 14).

28 Borrowings and derivatives

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Non-current assets				
Derivative financial instruments	–	(1.2)	–	–
Current liabilities				
Bank loans	**103.0**	113.4	**103.0**	80.0
Unsecured loans	–	1.3	–	–
Overdraft	**3.6**	5.9	**1.3**	0.7
	106.6	120.6	**104.3**	80.7
Non-current liabilities				
6.5% Secured Bonds 2026	**194.3**	194.9	–	–
Loan notes	**3.2**	32.0	**3.2**	32.0
Bank loans	**534.0**	434.0	**297.0**	265.0
Mortgages	–	2.2	–	–
Unsecured loans	**29.2**	0.4	**29.2**	0.4
Leasehold liabilities	**8.6**	9.0	–	–
	769.3	672.5	**329.4**	297.4
Derivative financial instruments	**26.9**	–	**12.1**	–
Total liabilities	**902.8**	793.1	**445.8**	378.1
Total net borrowings and derivatives	**902.8**	791.9	**445.8**	378.1

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Secured				
Bank loans	**637.0**	547.4	**400.0**	345.0
6.5% Secured Bonds 2026	**194.3**	194.9	–	–
Mortgages	–	2.2	–	–
	831.3	744.5	**400.0**	345.0
Unsecured				
Loan notes	**3.2**	32.0	**3.2**	32.0
Unsecured loans	**29.2**	1.7	**29.2**	0.4
Overdrafts	**3.6**	5.9	**1.3**	0.7
	36.0	39.6	**33.7**	33.1
Gross debt	**867.3**	784.1	**433.7**	378.1
Leasehold liabilities	**8.6**	9.0	–	–
Total debt	**875.9**	793.1	**433.7**	378.1
Cash and cash equivalents	**(10.5)**	(10.3)	–	–
Net debt	**865.4**	782.8	**433.7**	378.1

At 31st December 2008, £1,338.0m (2007: £1,648.2m) of the group's properties are subject to a fixed charge to secure the bank loans and mortgages. In addition, the bonds are secured by a floating charge over certain of the group's companies, which contain £337.3m (2007: £370.6m) of the group's properties.

28 Borrowings and derivatives (continued)

IFRS 7, Financial Instruments: Disclosure requires disclosure of the maturity of the group's and company's remaining contractual financial liabilities. The tables below show the projected 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 31st December 2008							
Bank overdrafts	3.6	–	–	–	–	–	3.6
Bank loans	103.0	–	115.0	–	391.0	28.0	637.0
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Loan notes	–	–	–	3.2	–	–	3.2
Unsecured loans	–	–	–	29.2	–	–	29.2
Total on maturity	106.6	–	115.0	32.4	391.0	203.0	848.0
Leasehold liabilities	1.0	0.9	1.0	1.0	1.0	69.4	74.3
Interest on debt	46.8	46.1	43.7	43.0	21.5	143.3	344.4
Gross loan commitments	154.4	47.0	159.7	76.4	413.5	415.7	1,266.7
At 31st December 2007							
Bank overdrafts	5.9	–	–	–	–	–	5.9
Bank loans	113.4	108.0	–	75.0	–	251.0	547.4
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Mortgages	–	–	–	–	–	2.2	2.2
Loan notes	–	–	–	–	32.0	–	32.0
Unsecured loans	1.3	–	–	–	0.4	–	1.7
Total on maturity	120.6	108.0	–	75.0	32.4	428.2	764.2
Leasehold liabilities	1.0	0.9	1.0	1.0	1.0	62.2	67.1
Interest on debt	46.6	40.5	34.3	33.9	27.2	168.8	351.3
Gross loan commitments	168.2	149.4	35.3	109.9	60.6	659.2	1,182.6

Reconciliation to total debt:

		Adjustments:			
	Gross loan commitments £m	Interest on debt £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
At 31st December 2008					
Maturing in:					
< 1 year	154.4	(46.8)	(1.0)	–	106.6
1 to 2 years	47.0	(46.1)	(0.9)	–	–
2 to 3 years	159.7	(43.7)	(1.0)	–	115.0
3 to 4 years	76.4	(43.0)	(1.0)	–	32.4
4 to 5 years	413.5	(21.5)	(1.0)	–	391.0
> 5 years	415.7	(143.3)	(60.8)	19.3	230.9
	1,266.7	(344.4)	(65.7)	19.3	875.9
At 31st December 2007					
Maturing in:					
< 1 year	168.2	(46.6)	(1.0)	–	120.6
1 to 2 years	149.4	(40.5)	(0.9)	–	108.0
2 to 3 years	35.3	(34.3)	(1.0)	–	–
3 to 4 years	109.9	(33.9)	(1.0)	–	75.0
4 to 5 years	60.6	(27.2)	(1.0)	–	32.4
> 5 years	659.2	(168.8)	(53.2)	19.9	457.1
	1,182.6	(351.3)	(58.1)	19.9	793.1

28 Borrowings and derivatives (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 31st December 2008							
Bank overdrafts	1.3	–	–	–	–	–	1.3
Bank loans	103.0	–	115.0	–	182.0	–	400.0
Loan notes	–	–	–	3.2	–	–	3.2
Unsecured loans	–	–	–	29.2	–	–	29.2
Total on maturity	104.3	–	115.0	32.4	182.0	–	433.7
Interest on debt	19.1	18.4	16.0	15.2	5.4	–	74.1
Gross loan commitments	123.4	18.4	131.0	47.6	187.4	–	507.8
At 31st December 2007							
Bank overdrafts	0.7	–	–	–	–	–	0.7
Bank loans	80.0	108.0	–	75.0	–	82.0	345.0
Loan notes	–	–	–	–	32.0	–	32.0
Unsecured loans	–	–	–	–	0.4	–	0.4
Total on maturity	80.7	108.0	–	75.0	32.4	82.0	378.1
Interest on debt	24.4	19.1	13.0	12.5	5.9	2.0	76.9
Gross loan commitments	105.1	127.1	13.0	87.5	38.3	84.0	455.0

There are no differences for the company in 2008 or 2007 between the total on maturity shown above and total debt.

Undrawn committed bank facilities

	Maturity dates						
	< 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 31st December 2008	**22.0**	**–**	**85.0**	**–**	**184.0**	**–**	**291.0**
At 31st December 2007	24.1	17.0	–	125.0	–	208.0	374.1
Company							
At 31st December 2008	**22.0**	**–**	**85.0**	**–**	**18.0**	**–**	**125.0**
At 31st December 2007	24.1	17.0	–	125.0	–	18.0	184.1

Fixed interest rate and hedged debt

At 31st December 2008, the group's and company's fixed rate debt comprised the Secured Bonds 2026 together with the instruments used to hedge its floating rate debt and, additionally, mortgages at 31st December 2007.

Secured Bonds 2026

On acquisition of London Merchant Securities plc on 1st February 2007 (see note 21), the Secured Bonds 2026 were included at fair value less acquisition costs. This difference from its principal value is being amortised through the income statement. The fair value shown in note 29 was determined by the mid-price of £89.36 per £100.00 as at 31st December 2008 (2007: £108.58 per £100.00). The carrying value at 31st December 2008 was £194.3m (2007: £194.9m).

Hedged debt

The hedged debt consists of interest rate swaps and an interest rate cap. The fair value of the interest rate swaps represents the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31st December 2008 for the period to the contracted expiry dates. The fair value of the interest rate cap represents the net cost of replacement on identical terms at prices prevailing on 31st December 2008.

28 Borrowings and derivatives (continued)

Hedged debt (continued)

	Group			Company		
	Principal £m	Weighted average interest rate %	Weighted average life years	Principal £m	Weighted average interest rate %	Weighted average life years
At 31st December 2008						
Interest rate swaps	370.0	5.030	4.29	170.0	5.150	4.35
Interest rate cap	10.0	6.010	2.46	10.0	6.010	2.46
At 31st December 2007						
Interest rate swaps	280.0	4.979	4.14	80.0	5.230	1.63
Interest rate cap	10.0	6.010	3.46	10.0	6.010	3.46

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 31st December 2008						
Bank overdrafts	3.6	–	–	3.6	5.14	–
Bank loans	257.0	380.0	–	637.0	5.80	3.79
6.5% Secured Bonds 2026	–	–	194.3	194.3	6.50	17.22
Loan notes	3.2	–	–	3.2	5.25	3.09
Unsecured loans	29.2	–	–	29.2	6.67	4.26
	293.0	380.0	194.3	867.3	5.96	6.59
At 31st December 2007						
Bank overdrafts	5.9	–	–	5.9	5.56	–
Bank loans	257.4	290.0	–	547.4	4.61	3.08
6.5% Secured Bonds 2026	–	–	194.9	194.9	6.50	18.22
Mortgages	–	–	2.2	2.2	6.99	6.04
Loan notes	32.0	–	–	32.0	5.20	4.09
Unsecured loans	1.7	–	–	1.7	6.76	5.26
	297.0	290.0	197.1	784.1	6.34	6.85
Company						
At 31st December 2008						
Bank overdrafts	1.3	–	–	1.3	5.14	–
Bank loans	220.0	180.0	–	400.0	5.98	3.16
Loan notes	3.2	–	–	3.2	5.25	3.09
Unsecured loans	29.2	–	–	29.2	6.67	4.26
	253.7	180.0	–	433.7	6.01	3.15
At 31st December 2007						
Bank overdrafts	0.7	–	–	0.7	5.56	–
Bank loans	55.0	290.0	–	345.0	5.83	3.11
Loan notes	32.0	–	–	32.0	5.20	4.09
Unsecured loans	0.4	–	–	0.4	6.76	5.26
	88.1	290.0	–	378.1	6.50	2.96

Further information on risk as required by IFRS 7 is given in note 4 and in the directors' report on pages 22 and 69.

29 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	–	10.5	–	10.5	10.5
Other assets – current [1]	–	31.6	–	31.6	31.6
	–	42.1	–	42.1	42.1
Financial liabilities					
Bank overdrafts	–	–	(3.6)	(3.6)	(3.6)
Borrowings due within one year	–	–	(103.0)	(103.0)	(103.0)
Borrowings due after one year	–	–	(575.0)	(575.0)	(575.0)
6.5% Secured Bonds 2026	–	–	(194.3)	(194.3)	(156.3)
Derivative liabilities	(26.9)	–	–	(26.9)	(26.9)
Other liabilities – current [2]	–	–	(13.1)	(13.1)	(13.1)
	(26.9)	–	(889.0)	(915.9)	(877.9)
At 31st December 2008	**(26.9)**	**42.1**	**(889.0)**	**(873.8)**	**(835.8)**
Financial assets					
Cash and cash equivalents	–	10.3	–	10.3	10.3
Derivative assets	1.2	–	–	1.2	1.2
Other assets – current [1]	–	56.1	–	56.1	56.1
	1.2	66.4	–	67.6	67.6
Financial liabilities					
Bank overdrafts	–	–	(5.9)	(5.9)	(5.9)
Borrowings due within one year	–	–	(114.7)	(114.7)	(114.7)
Borrowings due after one year	–	–	(477.6)	(477.6)	(477.6)
6.5% Secured Bonds 2026	–	–	(194.9)	(194.9)	(190.0)
Other liabilities – current [2]	–	–	(14.9)	(14.9)	(14.9)
	–	–	(808.0)	(808.0)	(803.1)
At 31st December 2007	1.2	66.4	(808.0)	(740.4)	(735.5)

[1&2] See page 56 for key.

29 Financial assets and liabilities (continued)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
Company					
Financial assets					
Other assets – current [1]	–	697.0	–	697.0	697.0
	–	697.0	–	697.0	697.0
Financial liabilities					
Bank overdrafts	–	–	(1.3)	(1.3)	(1.3)
Borrowings due within one year	–	–	(103.0)	(103.0)	(103.0)
Borrowings due after one year	–	–	(329.4)	(329.4)	(329.4)
Derivative liabilities	(12.1)	–	–	(12.1)	(12.1)
Other liabilities – current [2]	–	(154.3)	(6.6)	(160.9)	(160.9)
	(12.1)	(154.3)	(440.3)	(606.7)	(606.7)
At 31st December 2008	**(12.1)**	**542.7**	**(440.3)**	**90.3**	**90.3**
Financial assets					
Other assets – current [1]	–	560.5	–	560.5	560.5
	–	560.5	–	560.5	560.5
Financial liabilities					
Bank overdrafts	–	–	(0.7)	(0.7)	(0.7)
Borrowings due within one year	–	–	(80.0)	(80.0)	(80.0)
Borrowings due after one year	–	–	(297.4)	(297.4)	(297.4)
Other liabilities – current [2]	–	(131.4)	(6.5)	(137.9)	(137.9)
	–	(131.4)	(384.6)	(516.0)	(516.0)
At 31st December 2007	–	429.1	(384.6)	44.5	44.5

[1] Other assets includes all amounts shown as trade and other receivables in note 24 except prepayments of £7.1m (2007: £4.9m) for the group and £1.0m (2007: £1.0m) for the company. All amounts are non-interest bearing and are receivable within one year.

[2] Other liabilities for the group includes all amounts shown as trade and other payables in note 26 except deferred income of £33.5m (2007: £29.9m) and sales and social security taxes of £1.0m (2007: £3.2m). For the company, other liabilities represents trade and other payables, excluding £0.8m (2007: £0.9m) of sales and social security taxes. All amounts are non-interest bearing and are due within one year.

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

	Group 2008 £m	2007 £m	**Company 2008 £m**	2007 £m
Net financial assets and liabilities	**(873.8)**	(740.4)	**90.3**	44.5
Other assets – current	**(31.6)**	(56.1)	**(697.0)**	(560.5)
Other liabilities – current	**13.1**	14.9	**160.9**	137.9
Cash and cash equivalents	**(10.5)**	(10.3)	**–**	–
Total net borrowings and derivatives	**(902.8)**	(791.9)	**(445.8)**	(378.1)

30 Deferred tax

	Revaluation surplus £m	Capital allowances £m	Other £m	Total £m
Group				
Deferred tax liability				
At 1st January 2008	13.1	–	(2.3)	10.8
Provided during the year in the income statement	–	–	0.6	0.6
Released during the year in the income statement	(4.2)	–	–	(4.2)
At 31st December 2008	**8.9**	**–**	**(1.7)**	**7.2**
Deferred tax liability				
At 1st January 2007	150.2	16.3	0.7	167.2
Arising on acquisition of subsidiary	135.9	7.8	(11.3)	132.4
Transfer to investment in joint ventures	(0.7)	–	–	(0.7)
Provided during the year in the income statement	1.3	–	–	1.3
Released during the year in the income statement	(272.7)	(24.1)	8.1	(288.7)
Change in tax rates	(0.9)	–	0.2	(0.7)
At 31st December 2007	13.1	–	(2.3)	10.8
Company				
Deferred tax asset				
At 1st January 2008			1.3	1.3
Released during the year in the income statement			(1.0)	(1.0)
At 31st December 2008			**0.3**	**0.3**
Deferred tax asset				
At 1st January 2007			2.5	2.5
Released during the year in the income statement			(1.2)	(1.2)
At 31st December 2007			1.3	1.3

Due to the group's conversion to REIT status on 1st July 2007, deferred tax is only provided on the revaluation surplus of properties outside the REIT regime. Deferred tax on the revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment property portfolio as at each balance sheet date. The calculation takes account of available indexation on the historic cost of the properties and any available capital losses.

Due to the uncertainty over their availability, £11.9m (2007: £15.6m) of tax losses have not been recognised as a deferred tax asset.

31 Share capital

	Authorised £m	Issued and fully paid £m
At 1st January 2007	3.55	2.6
Increase in authorised share capital	2.49	–
Issues of shares on acquisition of subsidiaries	–	2.4
At 31st December 2007 and at 31st December 2008	**6.04**	**5.0**

The number of 5p ordinary shares in issue at the year end was 100,807,146 (2007: 100,703,194). During the year, no shares (2007: 7,077 shares) were issued as a result of the exercise of share options which realised proceeds of £nil (2007: £0.1m) and 103,952 shares (2007: 129,393) were issued as a result of awards vesting under the group's performance share plan. The number of outstanding share options and other share awards granted are disclosed in the report on directors' remuneration on pages 76 to 83.

32 Reserves

	Share premium £m	Other reserves £m	Retained earnings £m	Minority interest £m
Group				
At 1st January 2008	157.0	914.0	706.0	59.9
Share-based payments expense transferred to reserves	–	1.2	–	–
Actuarial pension losses	–	–	(2.1)	–
Foreign exchange translation differences	–	8.2	–	–
Transfer between reserves in respect of performance share plan	(0.8)	–	0.8	–
Loss for the year	–	–	(586.4)	(10.8)
Purchase of minority interest	–	–	–	(0.4)
Dividends paid	–	–	(23.3)	(13.3)
At 31st December 2008	**156.2**	**923.4**	**95.0**	**35.4**
At 1st January 2007	156.1	3.8	620.9	–
Arising on acquisition of subsidiary	–	–	–	56.0
Premium on issue of shares	0.9	910.5	–	–
Share-based payments expense transferred to reserves	–	0.3	–	–
Actuarial pension gains	–	–	1.3	–
Foreign exchange translation differences	–	(0.6)	–	–
Profit for the year	–	–	97.0	3.9
Dividends paid	–	–	(13.2)	–
At 31st December 2007	157.0	914.0	706.0	59.9
Company				
At 1st January 2008	157.0	714.3	126.6	–
Share-based payments expense transferred to reserves	–	1.2	–	–
Actuarial pension losses	–	–	(2.1)	–
Loss for the year	–	–	(260.2)	–
Transfer between reserves in respect of performance share plan	(0.8)	–	0.8	–
Transfer between reserves†	–	(336.3)	336.3	–
Dividends paid	–	–	(23.3)	–
At 31st December 2008	**156.2**	**379.2**	**178.1**	**–**
At 1st January 2007	156.1	3.8	53.7	–
Premium on issue of shares	0.9	910.5	–	–
Share-based payments expense transferred to reserves	–	0.3	–	–
Loss for the year	–	–	(114.2)	–
Transfer between reserves†	–	(200.3)	200.3	–
Dividends paid	–	–	(13.2)	–
At 31st December 2007	157.0	714.3	126.6	–

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS) (see note 21). Fair value and related deferred tax of equity instruments granted but not yet exercised under share-based payments. Foreign exchange reserve amounting to £7.6m at 31st December 2008 (2007: £0.6m deficit) which relates to gains or losses arising on retranslating the net assets of overseas operations.
Retained earnings	Cumulative net gains and losses recognised in the group income statement.

† £336.3m (2007: £200.3m) relating to the impairment of the investment in LMS in the company has been transferred from other reserves to retained earnings.

33 Changes in equity shareholders' equity

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Total recognised income and expense relating to the year	**(580.3)**	97.7	**(262.3)**	(114.2)
Dividends paid	**(23.3)**	(13.2)	**(23.3)**	(13.2)
Share-based payments transferred to reserves	**1.2**	0.3	**1.2**	0.3
Issue of shares	**–**	2.4	**–**	2.4
Premium on issue of shares	**–**	911.4	**–**	911.4
	(602.4)	998.6	**(284.4)**	786.7
Equity attributable to equity holders of the parent company at 1st January	**1,782.0**	783.4	**1,002.9**	216.2
Equity attributable to equity holders of the parent company at 31st December	**1,179.6**	1,782.0	**718.5**	1,002.9

34 Profit for the year attributable to members of Derwent London plc

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. Loss for the year includes a loss of £260.2m (2007: £114.2m loss) which has been dealt with in the accounts of the company.

35 Dividend

	2008 £m	2007 £m
Final dividend of 15p (2007 second interim: 10.525p) per ordinary share declared during the year relating to the previous year's results	**15.1**	5.7
Interim dividend of 8.15p (2007: 7.5p) per ordinary share declared during the year	**8.2**	7.5
	23.3	13.2

Of the dividend of £23.3m (2007: £13.2m), £22.5m (2007: £13.2m) was paid during the year and the remainder of £0.8m (2007: £nil), which relates to withholding tax, was paid after the balance sheet date.

The directors are proposing the payment of a final dividend in respect of the current year's results of 16.35p (2007: 15p) per ordinary share which would total £16.5m (2007: £15.1m). This dividend has not been accrued at the balance sheet date.

36 Cash and cash equivalents

	Group 2008 £m	2007 £m	Company 2008 £m	2007 £m
Overdrafts	**(3.6)**	(5.9)	**(1.3)**	(0.7)
Short-term deposits	**10.5**	10.3	**–**	–
	6.9	4.4	**(1.3)**	(0.7)

37 Cash flow

The cash flow for the year to 31st December 2007 contained exceptional administrative expenses of £16.0m which relate to costs incurred by London Merchant Securities plc (LMS) prior to the acquisition and accrued to 31st January 2007 in the fair value balance sheet shown in note 21. The year to 31st December 2007 also contained an exceptional finance cost of £3.3m, which was the cost of acquisition finance (see note 9).

The previously reported acquisition of subsidiaries (net of cash acquired) figures of £38.4m for the group and £52.2m for the company for the year ended 31st December 2007 have been restated to exclude the loan notes of £32.5m issued on the acquisition of LMS as this was not a cash transaction. In addition, the previously reported movement in bank loans figures of £83.3m for the group and £36.5m for the company has been split between the net movement in revolving bank loans, and the drawdown and repayment of non-revolving bank loans in accordance with IAS 7, Statement of Cash Flows. Neither of these changes affect the overall net cash flow for 2007.

38 Net asset value per share

	Net assets £m	Deferred tax on revaluation surplus £m	Fair value of derivative financial instruments £m	Fair value adjustment to secured bonds £m	Adjusted £m
At 31st December 2008					
Net assets	1,215.0	8.9	26.9	20.9	1,271.7
Minority interest	(35.4)	(0.5)	–	–	(35.9)
Net assets attributable to equity shareholders	1,179.6	8.4	26.9	20.9	1,235.8
Net asset value per share attributable to equity shareholders (p)	**1,170**	**8**	**27**	**21**	**1,226**
At 31st December 2007					
Net assets	1,841.9	13.1	(1.2)	21.6	1,875.4
Minority interest	(59.9)	(1.7)	–	–	(61.6)
Net assets attributable to equity shareholders	1,782.0	11.4	(1.2)	21.6	1,813.8
Net asset value per share attributable to equity shareholders (p)	1,770	11	(1)	21	1,801

The number of shares in issue at 31st December 2008 was 100,807,146 (2007: 100,703,194).

The total net assets of the group and those attributable to equity shareholders are shown in the table above. Adjustments are made for the deferred tax on the revaluation surplus and the post tax fair value of derivative financial instruments and the adjustment to the secured bond are excluded, on the basis that these amounts are not relevant when considering the group as an ongoing business.

39 Recurring profit before tax

	2008 £m	2007 £m
Loss before tax	**(606.5)**	(99.8)
Adjustment for:		
Disposal of properties and investments	**(1.2)**	(130.8)
Group revaluation deficit/(surplus)	**602.1**	(90.3)
Disposal of joint venture property	**–**	0.7
Joint venture revaluation deficit	**1.3**	–
Fair value movement in derivative financial instruments	**28.1**	5.1
Development income	**(0.5)**	(2.0)
Goodwill impairment	**–**	353.3
Net exceptional finance income and costs	**–**	1.8
Recurring profit before tax	**23.3**	38.0

40 Total return

	2008 %	2007 %
Total return	**(30.6)**	2.8

Total return is the movement in adjusted net asset value per share as derived in note 38 plus the dividend per share paid during the year, expressed as percentage of the adjusted net asset value per share at the beginning of the year.

41 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2008 and not provided for in the accounts amounted to £85.4m (2007: £78.3m). These contracts relate wholly to the construction, development or enhancement of the group's investment properties. At 31st December 2008 and 31st December 2007, there were no obligations for the purchase, repair or maintenance of investment properties.

42 Post balance sheet events

Since 31st December 2008, the group has completed the disposal of two freehold properties as described in note 25. Due to the nature of the transactions, the final value of the properties has not yet been agreed and, therefore, the profit or loss on disposal has not yet been determined. In addition, the group has disposed of one freehold property for £17.0m, before costs, generating a profit of £0.5m.

43 Leases

	2008 £m	2007 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**123.1**	110.2
later than one year and not later than five years	**356.8**	338.7
later than five years	**561.7**	602.8
	1,041.6	1,051.7

	2008 £m	2007 £m
Finance lease obligations		
Minimum lease payments under finance leases fall due:		
not later than one year	**1.0**	1.0
later than one year and not later than five years	**3.9**	3.9
later than five years	**69.4**	62.2
	74.3	67.1
Future contingent rent payable on finance leases	**(22.3)**	(18.0)
Future finance charges on finance leases	**(43.4)**	(40.1)
Present value of finance lease liabilities	**8.6**	9.0
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	**8.5**	8.9
	8.6	9.0

In accordance with IFRS 17, Leases, the minimum lease payments are allocated as follows:

	2008 £m	2007 £m
Finance charge (see note 9)	**0.6**	0.6
Contingent rent (see note 11)	**0.7**	0.4
Total	**1.3**	1.0

The group has almost 1,000 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 2008 was 13.9 years (2007: 11.0 years). 56% of these leases (2007: 46%) included a rent free period at the start of the lease, the weighted average being 10.7 months (2007: 7.3 months).

44 Contingent liabilities

The company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2008 the maximum liability that could arise for the company from the cross guarantees amounted to £2.3m (2007: £5.1m). The company has guaranteed its share of a loan to Primister Limited, the contingent liability for which at 31st December 2008 amounted to £2.8m (2007: £2.8m). In addition, the company guarantees its share of interest payable on this loan which amounts to £0.3m p.a. (2007: £0.3m p.a.). 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.

45 Principal operating companies

The principal operating companies within the group at 31st December 2008 are:

	Ownership	Principal activity
Subsidiaries		
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Valley Central Limited*	100%	Property investment
Derwent Valley City Limited	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited*	100%	Property investment
Derwent Valley Properties Limited	100%	Property investment
Derwent Valley Property Developments Limited*	100%	Property investment
Derwent Valley Property Investments Limited*	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS (Goodge Street) Limited	100%	Property investment
L.M.S. Properties Limited	100%	Property investment
LMS Shops Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
LMS (Kingston) Limited	100%	Property investment
Palaville Limited	100%	Property investment
Rainram Investments Limited	100%	Property investment
The New River Company Limited	100%	Property investment
Urbanfirst 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
Corinium Estates Limited	100%	Property trading
LMS Residential Limited	100%	Property trading
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited*	100%	Holding company

* Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares with the exception of £6.3m of preference shares in Urbanfirst Limited.

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, except at 31st December 2007 when Euro Mall Sterboholy a.s. was accounted for and disclosed in accordance with IFRS 5, Non-current assets Held for Sale.

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.

46 Related party transactions

Details of directors' remuneration are given in the report on directors' remuneration on pages 76 to 83 and note 12. Other related party transactions are as follows:

Group

Messrs J.D. Burns and S.P. Silver are partners in The Pilcher Hershman Partnership (PHP), estate agents. The partnership occupies offices owned by the group for which they paid a commercial rent in the year of £0.1m (2007: £0.1m). In addition, it received fees at a commercial rate in respect of the letting, acquisition and disposal of certain properties owned by the group of £0.9m (2007: £0.9m), during the year. Procedures have been established whereby the audit committee are able to verify that neither of Messrs Burns and Silver derive any direct benefit from these fees.

The Hon. R.A. Rayne is a director of LMS Capital plc, an investment company, which occupies offices owned by the group for which they paid a commercial rent of £0.4m (2007: £0.4m).

During the year, the group paid fees at a commercial rate in respect of the acquisition of certain properties of £0.1m (2007: £0.6m) to Everton Philips LLP, a firm in which the son of Mr J.D. Burns is a partner.

On 29th June 2007, the group sold investments with a book value of £6.9m to LMS Capital plc for £7.9m, an amount which would have been commanded in an arm's length transaction. This yielded a profit of £1.0m which is shown in note 8.

During 2007, the group made a payment of £1.0m to the Rayne Foundation, a charitable organisation of which The Hon. R.A. Rayne is chairman, in order to discharge the obligations acquired as part of the acquisition of London Merchant Securities plc. This amount was accrued in the acquisition fair value balance sheet (see note 21).

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

At 31st December 2008, included within other receivables in note 24 is an amount owed by the Portman Estate, the minority owner of two of the group's subsidiaries, of £8.7m (2007: £16.3m). The majority of this amount represents advances to the Portman Estate of £4.2m in 2008 and £14.3m in 2007, relating to proceeds received upon the disposal of jointly owned properties offset by a distribution of £12.3m in 2008. This debt will be discharged by a distribution to shareholders.

Company

The company received dividends from some of its subsidiaries during the year. These transactions are summarised below:

	Dividend received		Balance owed/(owing)	
	2008 £m	2007 £m	2008 £m	2007 £m
Related party				
Bramley Road Ltd	**–**	–	**0.6**	0.6
Derwent Valley Central Ltd	**50.0**	55.0	**287.7**	206.5
Derwent Valley London Ltd	**–**	12.5	**131.3**	144.6
Derwent Valley Property Developments Ltd	**12.0**	8.5	**59.5**	65.8
Derwent Valley Property Investments Ltd	**–**	2.5	**(2.2)**	0.7
Derwent Valley Railway Company*	**–**	–	**(0.2)**	(0.2)
London Merchant Securities Ltd†	**60.0**	50.0	**65.9**	10.5
	122.0	128.5	**542.6**	428.5

* Dormant companies.
† 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. Inter-company balances are repayable on demand. No interest is charged on inter-company balances.

The directors' report is continued from page 22.

Share capital

As at 17th March 2009, 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 31 to the financial statements.

Rights and restrictions attaching to shares

Subject to applicable statutes, any resolution passed by the company and other shareholders' rights, shares may be issued with such rights and restrictions as the company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the board may decide. Subject to the articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the board.

Voting

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him. In the case of joint holders of a share the vote of the senior shareholder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

Restrictions on voting

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the articles of association) after failure to provide the company with information concerning interests in those shares required to be provided under the Companies Acts. The company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Restrictions on transfer of securities in the company

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

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

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

Variation of Rights

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

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 annual general meeting held in 2008 to allot relevant securities up to a nominal amount of £1,678,386. That authority will apply until the conclusion of this year's annual general meeting. At this year's annual general meeting, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,680,119, and (ii) comprising equity securities up to a nominal amount of £3,360,238 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (section 80 authority), such section 80 authority to apply until the end of next year's annual general meeting.

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 £252,018. A special resolution will also 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 10,080,715 ordinary shares and sets the minimum and maximum prices which may be paid.

Substantial shareholders

In addition to those of the directors disclosed on page 68, the company has been notified of the following interests in the issued ordinary share capital as at 17th March 2009.

	Number of shares	Percentage of issued share capital
Withers Trust Corporation	6,217,444	6.17
Withers Trust Corporation Ltd. and James McCarthy*	5,548,731	5.50
Third Avenue Management Ltd.	5,083,433	5.04
Cohen & Steers Inc.	4,970,225	4.93
Lady Jane Rayne	4,093,838	4.06
Stichting Pensioenfonds ABP	3,920,586	3.89
Standard Life	3,622,700	3.59
Legal & General	3,482,391	3.45
Fortis Investment Management	3,043,854	3.02

*As trustees of Lord Rayne's Will Trust.

Amendment of articles of association

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

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 of association give the directors power to take such steps, including the power to:

- identify a substantial shareholder;
- withhold the payment of dividends to a substantial shareholder; and
- 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.

Fixed assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2008, resulting in a deficit of £597.1m, before deducting the lease incentive adjustment of £5.0m. Additional information regarding the basis of valuation is included in the risk management and internal control section on page 69. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £2,085.6m. Further details are given in note 18 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 42 of the financial statements.

Corporate Governance

Compliance

The board supports the principles of good governance and believes that the company has, except as noted, complied with the main and supporting principle of the Combined Code on Corporate Governance published by the Financial Reporting Council and which is appended to the Listing Rules of the Financial Services Authority. The company has not complied with code provision A.2.2, concerning the independence of the chairman on appointment. The company's position is described in the following section. A number of other code provisions were not applicable in the current year.

The board

At the start of the year, the board comprised Mr Rayne, the non-executive chairman, five executive directors, Messrs Burns, Silver, Odom, Williams and George and six non-executive directors, Mrs de Moller together with Messrs Ivey, Neathercoat, Farnes, Corbyn and Newell. On 2nd January 2008, Mr Silverman was appointed to the board as an executive director.

The board assesses the independence of the non-executive directors with regard to the guidance on independence contained in code provision A.3.1, and notes that Messrs Rayne, Ivey and Neathercoat cannot automatically be deemed independent. The board is also aware that code provision A.2.2 requires a new chairman to be independent on appointment. In accordance with principle A.6 of the code, the board has reviewed the roles and performance of all directors and, amongst other matters, reconsidered the independence of the non-executive directors.

Having served in an executive capacity at London Merchant Securities plc prior to the merger, Mr Rayne is not deemed independent. However, in view of the significant contribution Mr Rayne makes as chairman of the enlarged board, the board continues to consider that his position is justified.

Mr Ivey is not deemed independent, having served on the board for more than nine years. Again, the board considered his expertise and the manner in which he carried out his duties during the year and concluded that shareholders should have no concern that his independent judgement is in any way impaired.

Mr Neathercoat has also served as a non-executive director for more than nine years. The board has therefore reviewed his independence and is of the view that he continues to show strong independence in both judgement and in the performance of his duties as a director. This, together with the fact that he has no association with management that might compromise his independence, causes the board to conclude that he remains independent.

The directors also considered the composition of the board and continue to believe that it is suitably structured to satisfy the requirements of good corporate governance. In addition, during the year the nominations committee reviewed the timing and other issues relating to potential changes to the composition of the board with a view to ensuring in due course an orderly change process.

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. Mr Neathercoat is the senior independent director. Biographies of the directors are given on page 75.

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 2009. Extra meetings will be arranged if necessary. Additionally, the executive board, which consists of the executive directors met 11 times in 2008. The board is provided with comprehensive papers in a timely manner to ensure that the directors are fully briefed on matters to be discussed at these meetings.

Since 1993, the board has maintained a number of board committees. The terms of reference of each committee are available on the group's website. Set out below are details of the membership and duties of the three principal committees.

Remuneration committee

The committee comprises of Mr Neathercoat, Mr Corbyn, Mrs de Moller and Mr Newell under the chairmanship of Mr Farnes. It is responsible for establishing the company's remuneration policy and individual remuneration packages for the executive directors. There were four meetings of the committee in 2008. The report on directors' remuneration is set out on pages 76 to 83.

Audit committee

Mr Neathercoat chairs this committee which is served by Mr Corbyn, Mr Farnes, Mrs de Moller and Mr Newell. 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 2008. The report of the audit committee is on page 84.

Nominations committee

Mr Ivey is chairman of this committee which consists of all of the non-executive directors, except the chairman. The committee's responsibilities include identifying external candidates for appointment as directors and, subsequently, recommending their appointment to the board and, if requested, making a recommendation concerning an appointment to the board from within the company. The committee also carries out the annual appraisal of the performance and effectiveness of the board and its three committees. The committee met only once during the period under review. The report of the nominations committee is on page 85.

Directors' attendance at board and committee meetings during the year was as follows:

	Full board	Executive board	Remuneration committee	Audit committee	Nominations committee
Number of meetings	6	11	4	4	1
Executive directors					
J.D. Burns	6	11	–	–	–
S.P. Silver	5	10	–	–	–
C.J. Odom	6	10	–	–	–
P.M. Williams	6	10	–	–	–
N.Q. George	6	11	–	–	–
D.G. Silverman	6	11	–	–	–
Non-executive directors					
R.A. Rayne	5	–	–	–	–
J.C. Ivey	6	–	–	–	1
S.J. Neathercoat	6	–	4	4	1
R.A. Farnes	6	–	4	4	1
S.A. Corbyn	6	–	3	3	1
D. Newell	6	–	4	4	1
J. de Moller	5	–	4	3	1

Performance evaluation

During 2008, the nominations committee carried out a formal appraisal of the performance of the board and its committees. The remuneration committee performed appraisals of each of the executive directors, as part of the salary review process. The performance of the chairman was evaluated by the non-executive directors under the chairmanship of the senior independent director. All of the appraisals were conducted internally using questionnaires based on the guidance contained in the Higgs Report.

Appointment and replacement of directors

The directors shall be not less than two and not more than 15 in number. The company may by ordinary resolution vary the minimum and/or maximum number of directors. 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 following annual general meeting 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.

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.

At every annual general meeting of the company any director who has been appointed by the board since the last annual general meeting, or who held office at the time of the two preceding annual general meetings 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. The company may by special resolution remove any director before the expiration of his period of office.

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

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

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

Powers of the directors

Subject to the company's memorandum of association, the 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	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
R.A. Rayne	**4,350,017**	4,349,583	**382,746**	382,746
J.C. Ivey	**79,072**	79,072	**–**	–
J.D. Burns	**775,201**	729,614	**187,740**	149,365
S.P. Silver	**377,687**	279,689	**102,700**	69,675
C.J. Odom	**41,867**	25,141	**137,995**	120,420
N.Q. George	**22,820**	14,331	**132,645**	113,770
P.M. Williams	**25,977**	16,957	**132,395**	114,770
D.G. Silverman (appointed 2 January 2008)	**–**	–*	**54,750**	26,250*
S.J. Neathercoat	**8,000**	3,000	**–**	–
R.A. Farnes	**6,838**	6,838	**–**	–
S.A. Corbyn	**1,000**	1,000	**–**	–
J. de Moller	**2,985**	2,985	**–**	–
D. Newell	**1,492**	1,492	**–**	–

*As at date of appointment.

There have been no changes in any of the directors' interests between the year-end and 17th March 2009.

During the year, no options were exercised by directors and no new options were granted to directors under the Executive Share Option Scheme. A conditional grant of 286,975 shares was made to directors under the Performance Share Plan whilst 95,679 shares vested to the directors from an earlier award at a zero exercise price.

In accordance with the articles of association, Messrs Burns and Williams and Mrs de Moller retire by rotation and, being eligible, offer themselves for re-election. In addition, both having served on the board for more than nine years, Messrs Ivey and Neathercoat retire and, being eligible, offer themselves for re-election. Biographies of all the directors are given on page 75.

Other than as disclosed in note 46, the directors have no interest in any material contracts of the company.

Communication with shareholders

The company has always recognised 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. The annual report, which is available to all shareholders, reinforces this communication. The annual general meeting 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 the senior independent director.

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.

Key to this function is the group's risk register which is reviewed formally once a year. The register is initially prepared by the executive board which, having created the list of risks, collectively assesses the severity of the 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 and that some activities incur inherent risk. The register is then reviewed and commented upon by the audit committee before being considered and adopted by the full board.

The risk register is divided into four parts: strategic risks, corporate risks, property risks and financial risks. During this year's review, which was conducted in December 2008, no unacceptable residual risks were identified by the board. Some of the more significant risks, together with the controls that operate over that part of the business, are set out below.

Strategic risks

- That the group's strategy is not achieved due to adverse economic influences and/or movements in the central London property investment or occupational market.

  The group carries out an annual strategic review covering the next five years and prepares regular rolling forecasts for the next two years. As part of both exercises, the effect that changing the various main underlying assumptions has on the key ratios is considered and the board can vary the group's short term objectives so as to best realise its long term strategic goals. The group's policy of maintaining income from properties until a development starts gives the board flexibility in this regard.

Property risks

- In their report to the directors, the independent valuers, CB Richard Ellis, whilst not qualifying their opinion of value, have noted that the current volatility in the global financial system has created a significant degree of turbulence in commercial real estate markets across the world. Furthermore, the lack of liquidity in the capital markets means that it may be very difficult to achieve a sale of property assets in the short term.
- That the cost of the group's development schemes is increased due to delays in the planning process.

  When preparing appraisals for the group's proposed developments, potential delays on the scheme's critical path are identified and the effect quantified. If material, alternative solutions are evaluated. The group uses advisers who are fully aware of the current planning requirements specific to the scheme's location so as to reduce the risk of unforeseen delays.
- That a contractor or major sub-contractor becomes insolvent causing a project to be delayed or otherwise adversely affected.

  Generally the group selects contractors from a pool that are well known to it, and the financial information on these companies is regularly reviewed. If the insolvency of a major sub-contractor is seen to present a material risk to the critical path of a project, specific strategies are implemented to mitigate the effect.
- That a major tenant becomes insolvent causing a significant loss of rental income.

  The group's credit committee reviews the financial status of all prospective tenants and decides on the level of security to be obtained, by way of rent on deposit, bank guarantees etc. for those tenants that are approved. The group's asset managers are proactive in collecting amounts due from tenants and maintain regular contact with tenants which enables them to identify early signs of distress. In the current economic environment, the group is investigating the option of insuring the rent of a limited number of key tenants.

Financial risks

- That the group is unable 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 enables sources of finance to be identified and evaluated and, to a degree, the finance to be raised as and when market conditions are favourable.
- That the group breaches one of its financing covenants.

  All the group's secured borrowings contain financial covenants based only on specific security not corporate ratios such as balance sheet gearing. Treasury control schedules are updated each week whilst the group's rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken.
- That the group's debt facilities become unavailable or are not renewed.

  The group develops long-term relationships with a small number of banks and, where possible, arranges facilities that provide an excess over the requirement identified in the rolling forecast.

The systems that control the risks on the risk register form the group's system of internal control. 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.

Internal audit

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.

Going concern

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

Corporate responsibility

Derwent London is committed to sustainable building design and contributing to the environment in which we operate. During 2008, we focused on improving awareness and communication and strengthening policies with a series of staff seminars, the successful launch of a tenant interactive website and conducting a review with the aim of moving to an approach whereby environmental, social and economic issues are considered holistically throughout the property lifecycle and our wider business activities.

Environment

This is the third year of environmental reporting. This section provides a summary of the group's environmental performance for 2008 and its key objectives for 2009. The full environmental report is available on the group's website.

Sustainability

Derwent London strives to improve its approach to sustainability and in 2008 commissioned a report by Arup to examine existing policies which is being reviewed for implementation in 2009. We continue to focus on sustainable building design aspiring to BREEAM Excellent rating with a minimum Very Good rating on all major new building schemes, with vigorous reviews during the early stage of the design process focused on improving the energy performance of our buildings.

Improving the performance of our assets is important to us and, with two-thirds of energy performance certificates produced on managed buildings, a review will be shortly underway to implement measures to reduce energy consumption. A more in-depth investigation is in progress on the Johnson Building, Oliver's Yard and the Davidson Building. Arup will be reporting later this year on these three buildings identifying areas where improvements can be made. We see the studies at these three buildings as having potential benefits to the wider portfolio.

Environmental Management

It is proposed that, in 2009, we shift our focus from environmental to sustainable management, realigning existing environmental policies and introducing a comprehensive framework for managing sustainable issues at each stage of the property lifecycle. A comprehensive framework for management is to be created dividing environmental management between projects and assets with the aim of implementing the approach in 2010.

Environmental Performance

The group is able to demonstrate a number of environmental improvements in 2008.

Water usage in managed buildings has fallen and is now below the group's target level. With the aim of recycling rain water on all new projects and pursuing the installation of water meters on the remaining small number of managed buildings continued improvement is expected.

For the first year, the percentage of waste recycling in managed properties has been recorded and in seven out of twelve properties achieved 40% and above. Awareness of the importance of waste management has prompted arrangements for our tenants to visit CORY, our main waste collectors, which should help reinforce management procedures and increase the percentage of recycled waste, where the target for 2009 is 40% on all buildings.

Energy data on managed buildings, that in some cases is only the landlord areas and in others the whole building, shows an increase in consumption and consequent carbon emissions based on per square metre floor area. However, due to the nature of our property portfolio, there are likely to be fluctuations on a year-on-year basis influenced by external environmental conditions and tenant behaviour. Ongoing attention to improve energy performance, including Arup's investigation at the three properties referred to above and feedback from energy performance certificates, should result in improved data. During 2008, changes in the timing of the heating system and the installation of movement sensors on the lighting at Oliver's Yard has resulted in a saving of approximately 297 tonnes of carbon dioxide. At 4-5 Grosvenor Place, timing changes are believed to be responsible for a 25% reduction in usage within the common parts, resulting in carbon dioxide emission saving of approximately 104 tonnes over the year.

We see the interactive tenant website as an opportunity to improve energy awareness and communicate measures that impact on carbon emissions. In 2008, a new contract from Scottish and Southern Energy was negotiated to supply the managed portfolio. This contract supplies Climate Levy exempt electricity sourced from Good Quality Combined Heat and Power (GQCHP). The production of more efficient energy by this method as opposed to power stations results in carbon dioxide savings of approximately 30%.

Key Objectives 2009

- Implement findings of the strategic review undertaken in 2008 by Arup integrating current environmental work with an overall sustainability strategy.
- Set targets to achieve BREEAM Very Good rating for new build projects.
- Complete launch of tenant website, monitor and review feedback.
- Achieve a 'C' rated Energy Performance Certificate on all new build projects above 3,000m^2.
- Continue to investigate energy observation measures at Oliver's Yard, the Johnson Building and the Davidson Building.
- Ensure all managed buildings have green travel plans.
- Achieve a 40% recycling rate in the properties for which Derwent London has control over waste management.
- Register all applicable projects with the Considerate Contractors Scheme and to achieve a score of 32-40.
- Maintain less than 0.55 cubic meters per m^2 water usage per annum for offices.
- Continue to achieve target of 100% hardwood timber to be sourced from certified sources and work towards 100% certified sources for softwood timber.

Social policy

Following the merger of London Merchant Securities and Derwent Valley Holdings, 2008 was a year of integrating the various policies and procedures to ensure that our customers, our suppliers and the communities that we operate within benefit from a consistent approach to the way that we do business.

At the same time, as the business has grown we have had to implement a more robust human resources (HR) system to ensure that we attract and retain the best talent for our business.

Throughout this process our aim has been to retain the flexible, dynamic and pragmatic approach which has served us well in the past. This report provides an overview of some of the practical actions we have taken to meet the following objectives that were set out in last year's annual report and accounts.

Customers

- Derwent London will strive towards high quality customer service through regular contact and by being receptive to their needs.
- Derwent London will ensure that its customers are safe in all managed buildings by maintaining high health and safety standards.

Employees

- Derwent London will provide training, support and development opportunities to all staff to help achieve company aspirations.
- Derwent London will attract and retain high calibre employees by promoting equal opportunities and ensuring a safe working environment.

Suppliers

- Derwent London will treat its suppliers fairly and with respect.
- Derwent London will ensure that its own corporate responsibility standards are also reflected in its supply chain by encouraging responsible procurement.

Governance

The overall accountability for the delivery of these objectives rests with Mr Williams, who chairs the committee with responsibility for strategic direction. Last year the committee set a number of internal targets. Responsibility for ensuring that these targets were implemented was devolved to four working groups with relevant individuals from across the different operations of the business.

Our work has been supported by our strategic corporate responsibility advisors, Upstream Sustainability Services (part of Jones Lang LaSalle) who have attended all meetings to provide oversight, monitor progress and convey industry best practice.

Customers

Good communication with our customers is vital for making sure that we respond to their changing needs and circumstances. This year we developed a tenant survey which has been sent to all of our managed properties at the beginning of 2009. This will provide valuable tenant feedback and enable us to make improvements where appropriate. We have also developed a customer web portal to improve the information that is provided to tenants. The web portal – complete with customised content for individual buildings – will be rolled out from early 2009.

Maintaining safe and healthy working environments is vital to ensure satisfied tenants and low vacancy rates across our portfolio. This year we undertook health and safety audits at all our managed properties, highlighting any instances of non-compliance and providing detailed reports of actions needed to remedy any issues. We also carried out follow-up inspections to ensure that all recommended actions had been addressed. In the future, recording the number of instances of non-compliance will become part of our annual management approach of health and safety and we will report our performance against a baseline established in 2008. To assist with our performance in this regard, all property managers have been issued with a health and safety checklist to help them proactively monitor the health and safety of their properties and address issues before they become a hazard. We are pleased to report zero incidents at our managed properties during 2008 under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

Our asset management team also undertook security assessments across ten of our properties (identified according to risk). Action plans were drawn up specific to each site, and tenants consulted to ensure their expectations were met and to explain any service charge impacts. The majority of improvements, ranging from consolidating security arrangements around a hub of properties to upgrading on site CCTV and entry systems to buildings, have now been implemented. In future, we will assess security issues through our annual tenant survey.

Employees
Our employees are our most important resource and we need to ensure that they are fully supported and rewarded for their performance. Therefore, over the past year, we have moved towards a more formal performance management framework that allows us to measure an individual's performance more consistently and objectively. This approach saw a revised and re-launched performance appraisal process, which was completed by 100% of employees. All employees attended a training session ahead of their performance appraisal to ensure they understood the process. The appraisal process will be developed further this year, with a mid-year review being introduced in May 2009 to support staff in meeting their annual performance targets, and the introduction of 360 degree feedback for senior managers.

As part of the appraisal process all employee training needs were identified. Our centralised HR team will ensure that all these training needs are addressed during the year. In line with this, we also introduced a policy for study leave and external training to ensure that all staff have the same opportunity to develop their skills.

The new HR team have also introduced some low cost additions to employees' overall benefits package. First, a sustainable travel policy was developed to encourage staff make the right choices for how they get into work. This included initiatives such as interest-free season ticket loans and a bike-to-work scheme. A Give as You Earn (GAYE) scheme was also launched so that employees can maximise contributions to their preferred charities. At present, participation in some of these schemes is not as high as we had hoped and in the year ahead we will be looking to encourage higher uptake of these benefits.

Suppliers
This year has been difficult for many of our suppliers given the current economic situation. Many of them are small businesses and, therefore, maintaining reliable cash flow is vital. Our policy in this regard is to pay our suppliers in accordance with agreed terms of business and this year suppliers' invoices were paid on average within 21 days. This is an improvement on last year's average payment time of 24 days.

We are also committed to encouraging sustainable standards in our supply chain, and this year a question to gauge social commitment was included as part of the supplier selection process. This will help us to understand more about how our suppliers address their own social impacts and how we can work together. For instance, this year, we will be supporting our contractors to recruit locally for the projects they are working on.

Communities
Strong community links help us to address community concerns before they become a risk to our business. We have therefore been developing a more formal and consistent approach to community consultation to incorporate communities' views into our plans and decisions. No communities are the same, so this strategy will be used flexibly when it is approved in early 2009.

Our commitment to improving our links to communities is also measured by an increase in donations to local London organisations. In 2008, Derwent London donated £8,125 directly to charity, mainly to organisations concerned with children's health and the arts, including Great Ormond Street Hospital and Sadler's Wells. This compares with £3,000 donated in 2007. As well as direct cash contributions, several Derwent London employees also donate their time and expertise to a range of causes, for example, through our ongoing links with the Teenage Cancer Trust. The total cash value of time spent by our employees is £3,250, making a total of £11,375 donated to charitable causes.

We have also investigated a more formal approach to employee volunteering. This not only provides benefits for the receiving organisations but also provides opportunities for our staff to develop new skills and see challenges from a new perspective.

This year we have decided to make our social targets public in line with industry best practice. These can be viewed on the group's website, www.derwentlondon.com. Furthermore, we will be moving our approach to corporate responsibility forward by bringing our environmental and social agendas together under the banner of sustainability.

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 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.

Auditors
BDO Stoy Hayward LLP have expressed the willingness to continue in office and accordingly, a resolution to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the annual general meeting. These are resolutions 9 and 10 in the notice of meeting.

Annual general meeting

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

Resolution 11 will increase the company's authorised share capital to £8,401,000 through the creation of 47,283,000 new ordinary shares of 5p each. This will enable the company to take full advantage of the ability to allot ordinary shares under the authorities proposed in resolution 12.

Resolution 12 will renew the authority of the directors under section 80 of the Companies Act 1985 to allot shares. Paragraph (A) of the resolution gives the directors authority to allot ordinary shares up to an aggregate nominal amount of £1,680,119 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 recent 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 £3,360,238, 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 or on the vesting of shares under the company's performance share plan. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution or, if earlier, the close of business on 27th August 2010.

Resolution 13 is a special resolution, proposed annually, and will renew the directors' authority under section 95 of the Companies Act 1985. The resolution empowers the directors to allot or, now that the company may hold shares as treasury shares (as further described below), sell shares for cash in connection with pre-emptive offers with modifications to the requirements set out in section 89 of the Companies Act 1985. 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 £252,018 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 12 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 annual general meeting after the passing of the resolution or, if earlier, the close of business on 27th August 2010.

Resolution 14 is proposed to renew the authority enabling 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 Companies Act 1985 now 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 14, 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 17th March 2009 was 1,208,556, which represented 1.20% 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 17th March 2009 would represent 1.48% of the issued share capital (excluding treasury shares).

Resolution 15 will increase the total amount that may be paid in respect of directors' fees to £500,000. This was last increased at the time of the acquisition of London Merchant Securities plc.

Resolution 16 is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive, which will increase the notice period for general meetings of the company to 21 days. The company is currently able to call general meetings (other than an annual general meeting) on 14 clear days' notice and would like to preserve this ability. The approval will be effective until the company's next annual general meeting, when it is intended that a similar resolution will be proposed.

By order of the board.
T.J. Kite ACA
Secretary
17th March 2009

Directors' responsibilities

The directors are responsible for keeping proper accounting records which 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 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the company in accordance with IFRSs.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's and company's financial position, financial performance and cash flows. This required 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; 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 rules and uncertainties that they face.

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

On behalf of the board

J.D. Burns
Chief executive officer
17th March 2009

C.J. Odom
Finance director

R.A. Rayne, 60 Non-executive chairman
The Hon R A Rayne joined the board in February 2007. He has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc and is currently chief executive officer of LMS Capital plc, a company listed on AIM. He is also a non-executive director of Weatherford International Inc., an international oil services company quoted on the New York Stock Exchange, and was chief executive officer of London Merchant Securities plc.

J.C. Ivey, 67 Non-executive deputy chairman
A chartered accountant, Mr Ivey is a director of RWS Holdings plc and was formerly chief executive of The Davis Service Group plc. He has served on the board since 1984 and chairs the nominations committee.

J.D. Burns, 64 Chief executive officer
Mr Burns has been a director of the company since 1984 and has overall responsibility for group strategy, business development and day-to-day operations. He is a non-executive director of The Davis Service Group plc and a partner in The Pilcher Hershman Partnership, estate agents.

S.P. Silver, 58 Head of development
Mr Silver has overall responsibility for acquisitions, design and development projects. He became a director in 1986 and is an honorary fellow of the Royal Institute of British Architects. He is also a partner in The Pilcher Hershman Partnership.

C.J. Odom, 58 Finance director
Mr Odom joined the board in 1988. He is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting.

N.Q. George, 45 Executive director
A chartered surveyor, Mr George was appointed to the board in 1998. He has responsibility for acquisitions and investment analysis.

P.M. Williams, 49 Executive director
Mr Williams is a chartered surveyor and was appointed to the board in 1998. His responsibilities include asset management and supervision of refurbishment and development projects.

D.G. Silverman, 39 Executive director
Mr Silverman joined the board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals.

S.J. Neathercoat, 60 Senior independent director
Mr Neathercoat is a chartered accountant. He joined the board in March 1999 and chairs the audit committee whilst serving on the remuneration and nominations committees. He is chairman of London Medical Technologies plc and was previously a managing director of Dresdner Kleinwort Wasserstein.

R.A. Farnes, 63 Non-executive director
Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board in April 2003. He chairs the remuneration committee and is a member of the audit and nominations committees.

S.A. Corbyn, 64 Non-executive director
Mr Corbyn was appointed to the board in May 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 is a member of the audit, remuneration and nominations committees.

J. de Moller, 61 Non-executive director
Mrs de Moller joined the board in February 2007. She is a non-executive director of Temple Bar Investment Trust plc and Archant Limited. Previously, she was managing director of Carlton Communications Plc and a non-executive director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc and London Merchant Securities plc. She is a member of the audit, remuneration and nominations committees.

D. Newell, 66 Non-executive director
Mr Newell joined the board in February 2007. Previously, he was senior partner of Hillier Parker May & Rowden, chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services Inc., a non-executive director of London Merchant Securities plc and a past president of the British Council of Offices. He is a member of the audit, remuneration and nominations committees.

Remuneration committee

The remuneration committee (committee) is chaired by Mr Farnes with Messrs Neathercoat, Corbyn and Newell, together with Mrs de Moller serving throughout the year. 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. It also oversees the operation of the group's bonus scheme and performance share plan. The terms of reference of the committee are available on the company's website.

Hewitt New Bridge Street (HNBS) was retained to provide independent assistance to the committee particularly in relation to its determination of the extent of vesting of outstanding share awards. No director had any involvement in determining his own remuneration although some of the matters considered by the committee were discussed with Mr. 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, employs and motivates executives that have the skills and experience necessary to make a significant contribution to the delivery of the group's objectives.
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to levels of remuneration in similar sized FTSE 350 companies and that of the company's senior management.
- 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.
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice.

Elements of Remuneration Package

A full review of executive remuneration arrangements was carried out by HNBS during 2007 and a revised remuneration structure applied in 2008. The committee is satisfied that this structure remains appropriate for 2009. The key elements of this 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 1st January. At the review carried out in December 2008, the committee decided to freeze the salaries for 2009 for all of the executive directors other than Mr Silverman who joined the board in 2008. The committee decided to reduce the gap between his salary and that of the other executive directors and increased his salary from £220,000 in 2008 to £235,000 for 2009.

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

b) Annual bonus

The annual bonus structure remains unchanged in 2009 from 2008. The scheme offers a maximum bonus potential for Messrs Burns and Silver of 150% of salary and for the other executive directors, 125% of salary.

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

The bonus is based 75% on two financial measures, namely NAV growth and total return (being NAV growth plus dividends) and 25% at the committee's discretion (linked to the achievement of pre-set personal and strategic targets).

c) Long-term incentives

Changes to the group's Performance Share Plan (PSP), which was established in 2004, were approved by shareholders at the 2008 annual general meeting.

The maximum permitted annual award of shares under the plan is now 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 intended policy for 2009 is to limit awards to no more than 175% of salary for Messrs Burns and Silver and 150% of salary for other directors.

Vesting of awards under the PSP will normally occur to the extent that pre-set performance targets have been satisfied provided that the executive is still employed at the end of the three-year vesting period. Performance targets for awards granted in 2008 and 2009 are 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
  British Land plc
  Brixton plc
  Capital & Regional plc
  Great Portland Estates plc
  Hammerson plc
  Land Securities plc
  Liberty International PLC
  Mapeley Estates Ltd
  Minerva plc
  Quintain Estates and Development plc
  Segro plc
  Shaftesbury plc
  St Modwen Properties plc
  Workspace Group 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.

- 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		Pro rata between 25% and 100%

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

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

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

Details of outstanding share entitlements under the scheme, along with associated performance conditions, are set out on page 80 in table 2.

Shareholding guideline

Following the independent review in 2007, and in line with best practice, a share ownership guideline has been introduced for executive directors requiring them to retain at least half of any share awards vesting from 1st 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).

Service contracts

The service contracts of Messrs Burns, Silver and Odom are dated 20th May 1997 whilst those of Messrs George and Williams are dated 31st March 1999 and that of Mr Silverman 2nd January 2008. The contracts have no stated termination date but require 12 months' notice of termination by the company or six months' notice by the executive. A provision is included whereby the company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary and benefits in kind plus a pension contribution or salary supplement of at least 20% of basic salary. During the year, the committee engaged Slaughter and May to review the directors' service contracts used by the group. The new contract, which will be used for all future appointments, reflects the latest developments in employment law and practice and includes a mitigation clause which would operate unless the termination arose from a change of control.

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 set by the whole board. Neither the chairman nor non-executive directors are eligible for pension scheme membership and do not participate in the company's bonus or equity based incentive schemes.

The non-executive directors do not have service contracts and are appointed for three-year terms which expire as follows: Mr Ivey, 12th December 2011; Mr Farnes, 31st March 2009; Mr Corbyn, 23rd May 2009; Mrs de Moller and Mr Newell, 31st January 2010; and Mr Neathercoat, 28th February 2011. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31st January 2010. 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.

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

Table 1

2008	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	Gains from equity settled schemes £'000	**Total £'000**	**Pension and life assurance £'000**
Executive						
J.D. Burns	500	117	39	304	**960**	**110**
S.P. Silver	425	99	23	255	**802**	**98**
C.J. Odom	315	62	17	181	**575**	**82**
N.Q. George	300	58	15	156	**529**	**71**
P.M. Williams	300	58	19	165	**542**	**71**
D.G. Silverman	220	43	15	–	**278**	**49**
Non-executive						
R.A. Rayne	150	–	30	–	**180**	**–**
J.C. Ivey	62	–	–	–	**62**	**–**
S.J. Neathercoat	53	–	–	–	**53**	**–**
R.A. Farnes	49	–	–	–	**49**	**–**
S.A. Corbyn	44	–	–	–	**44**	**–**
J. de Moller	44	–	–	–	**44**	**–**
D. Newell	44	–	–	–	**44**	**–**
	2,506	437	158	1,061	**4,162**	**481**

Under the rules of the group's bonus scheme, the level of the 2008 bonus entitlement can only be ascertained once the result of all the comparator companies have been announced.

Table 1 (continued)

2007	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	Gain from equity settled schemes £'000	Total £'000	Under provision of 2007 bonus £'000	Revised Total £'000	Pension and life assurance £'000
Executive								
J.D. Burns	450	337	40	461	1,288	113	1,401	99
S.P. Silver	375	281	25	386	1,067	94	1,161	96
C.J. Odom	290	218	12	290	810	43	853	76
N.Q. George	275	206	16	236	733	69	802	67
P.M. Williams	275	206	19	263	763	69	832	67
N.R. Friedlos**	115	–	8	27	150	–	150	26
Non-executive								
R.A. Rayne*	137	–	28	–	165	–	165	–
J.C. Ivey	50	40	–	–	90	–	90	–
S.J. Neathercoat	38	–	–	–	38	–	38	–
R.A. Farnes	38	–	–	–	38	–	38	–
S.A. Corbyn	35	–	–	–	35	–	35	–
J. de Moller*	32	–	–	–	32	–	32	–
D. Newell*	32	–	–	–	32	–	32	–
	2,142	1,288	148	1,663	5,241	388	5,629	431

*From 1st February 2007.
**For the period 1st February 2007 to 18th July 2007.

The under provision of the 2007 bonus, which has been recognised in the 2008 results, is the amount by which the final award under the bonus scheme exceeded the estimated amount included in the 2007 results. This revision was required because the committee could not decide on the final bonus payments until the results of all the comparator companies had been announced (which followed the publication of last year's remuneration report). The total remuneration for 2007, which was previously disclosed as £5,241,000, has been revised to allow a correct comparison to be made between the two years.

In addition to the above, as disclosed last year, Mr Friedlos received a pre-determined compensation payment in 2007 of £536,758 when he resigned from the company. This was in accordance with a clause in his service agreement which had been preserved from his service contract with LMS Services Limited.

Mr Burns received fees of £40,000 (2007: £40,000) in respect of his position as a non-executive director of The Davis Service Group. In accordance with the committee's policy, the fees are 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 31st December 2008 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	Employees	Total
8.74	15/06/07	43,000	36,000	27,000	22,000	24,500	–	12,500	165,000
10.70	21/03/08	37,250	31,250	23,250	20,000	21,250	–	11,500	144,500
16.19	06/04/09	25,940	21,610	16,670	15,440	15,440	–	8,640	103,740
Interest at 1st January 2007		106,190	88,860	66,920	57,440	61,190	–	32,640	413,240
Shares conditionally awarded during 2007:									
Market price at award date £	Earliest vesting date								
22.30	03/04/10	20,175	16,815	13,000	12,330	12,330	–	7,395	82,045
Shares vested or lapsed during 2007:									
Market price at award date £	Market price at date of vesting £								
8.74	13.68	(33,721)	(28,231)	(21,173)	(17,252)	(19,213)	–	(9,803)	(129,393)
8.74	Lapsed	(9,279)	(7,769)	(5,827)	(4,748)	(5,287)	–	(2,697)	(35,607)
		(43,000)	(36,000)	(27,000)	(22,000)	(24,500)	–	(12,500)	(165,000)
Interest at 31st December 2007		83,365	69,675	52,920	47,770	49,020	–	27,535	330,285
Shares conditionally awarded during 2008:									
Market price at award date £	Earliest vesting date								
11.57	05/06/11	75,625	64,275	40,825	38,875	38,875	28,500	15,550	302,525
Shares vested or lapsed during 2008:									
Market price at award date £	Market price at date of vesting £								
10.70	11.36	(26,797)	(22,481)	–	–	–	–	–	(49,278)
10.70	10.82	–	–	(16,726)	(14,388)	(15,287)	–	(8,273)	(54,674)
10.70	Lapsed	(10,453)	(8,769)	(6,524)	(5,612)	(5,963)	–	(3,227)	(40,548)
		(37,250)	(31,250)	(23,250)	(20,000)	(21,250)	–	(11,500)	(144,500)
Interest at 31st December 2008		**121,740**	**102,700**	**70,495**	**66,645**	**66,645**	**28,500**	**31,585**	**488,310**

The performance criteria in respect of the 2004 award were measured on 14th June 2007 and resulted in a vesting percentage of 78.42%. For the 2005 award, the performance criteria were measured on 20th March 2008 and showed a vesting percentage of 71.94%. The balance of the awards lapsed. At both vesting dates, the committee considered whether the group's total shareholder return reflected its underlying financial performance. Having taken into account the growth in net assets and profits over each period, the committee concluded that this was the case.

For awards granted in 2004-2007, half of the shares vest according to TSR performance compared to the constituents, as at the date of grant, of the FTSE All-Share Real Estate Index. At a median level of performance, 25% will vest. At or above an upper quartile level of performance, 100% will vest. Between these two points, vesting will accrue on a straight line basis. For subsequent awards the group's TSR performance will be compared to that of a defined comparator group. The members of this group are listed earlier in this report. Performance will continue to be measured over a three-year period and the vesting schedule is unchanged. This element will only vest if the committee is also satisfied that the TSR performance reflects underlying financial performance.

The other half of the award will vest according to NAV growth compared to properties in the IPD Central London Offices Total Return Index for the same period. If the growth in NAV is less than the return from the median performing property in the IPD Index, no shares will vest. If growth in NAV is equal to the return from the median performing property in the IPD index, 25% will vest and the entitlement will then increase on a sliding scale up to 100% which is achieved if NAV growth equals the return from the upper quartile performing property in the IPD Index.

Performance conditions applying to awards granted in 2008 are outlined in the policy section above.

Share option schemes
Details of the options held by directors and employees under the group's share option schemes at 31st December 2008 are given in table 3 below:

Table 3

Exercise price £	Date from which exercisable	Expiry date	Directors J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total number of shares
5.530	16/04/02	15/04/09	–	–	–	8,750	–	–	–	8,750
5.015	14/04/03	13/04/10	–	–	–	11,000	13,000	–	–	24,000
7.235	12/04/04	11/04/11	42,000	–	26,500	15,000	18,000	–	–	101,500
6.725	15/04/05	14/04/12	24,000	–	15,000	10,750	12,250	–	6,500	68,500
4.265	22/04/06	21/04/13	–	–	26,000	20,500	22,500	–	16,500	85,500
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 1st January 2007			66,000	–	67,500	66,000	65,750	26,250	51,000	342,500

No options were granted during 2007

Options exercised or lapsed during 2007

Exercise Price £	Market price at date of exercise £									
4.265	20.87		–	–	–	–	–	–	(5,000)	(5,000)
Outstanding at 31st December 2007 and 31st December 2008			**66,000**	**–**	**67,500**	**66,000**	**65,750**	**26,250**	**46,000**	**337,500**

In 2008, no options were granted or exercised and no options lapsed. The weighted average exercise price of options exercised in 2007 was £4.265 and the weighted average market price at the date of exercise was £20.87.

	31st December 2008	31st December 2007	1st January 2007
Number of shares:			
Exercisable	323,250	303,250	288,250
Non-exercisable	14,250	34,250	54,250
Weighted average exercise price of share options:			
Exercisable	£6.48	£6.20	£6.00
Non-exercisable	£13.63	£11.92	£10.70
Weighted average remaining contracted life of share options:			
Exercisable	3.32 yrs	4.12 yrs	4.98 yrs
Non-exercisable	7.44 yrs	7.79 yrs	8.32 yrs

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 Offices Capital Growth Index over the same period by 6% or more. All options other than those that become exercisable on 8th June 2009 and which have yet to be tested, have met this criteria.

As a result of the acquisition of London Merchant Securities plc (LMS), options that had already vested under LMS's Executive Share Option Scheme were converted to become options over Derwent London shares. Details of these options, all of which are exercisable, are given in table 4 below:

Table 4

Exercise price £	Expiry date		R.A. Rayne	N.R. Friedlos	Employees	Total
Outstanding at 1st January 2007			–	–	–	–
Options arising as a result of the acquisition of LMS						
9.54	05/01/11		225,401	–	–	225,401
7.54	29/08/13		65,615	–	–	65,615
9.92	01/03/08		–	–	7,163	7,163
9.92	01/09/14		50,274	–	–	50,274
12.03	28/12/08		–	20,780	1,081	21,861
12.03	28/06/15		41,456	–	–	41,456
14.44	29/07/08		–	–	7,548	7,548
			382,746	20,780	15,792	419,318
Options exercised during 2007						
Exercise price £	Market price at date of exercise £					
14.44	22.68		–	–	(4,640)	(4,640)
14.44	22.70		–	–	(831)	(831)
14.44	22.79		–	–	(2,077)	(2,077)
12.03	15.46		–	(8,000)	–	(8,000)
			–	(8,000)	(7,548)	(15,548)
Outstanding at 31st December 2007			382,746	12,780	8,244	403,770
Options exercised during 2008						
Exercise price £	Market price at date of exercise £					
9.92	14.02		–	–	(2,326)	(2,326)
9.92	14.14		–	–	(4,837)	(4,837)
12.03	14.43		–	(12,780)	–	(12,780)
12.03	Lapsed		–	–	(1,081)	(1,081)
			–	(12,780)	(8,244)	(21,024)
Outstanding at 31st December 2008			**382,746**	**–**	**–**	**382,746**

The weighted average exercise price of options exercised during the year was £11.27 (2007: £13.20) and the weighted average market price at the date of exercise was £14.31 (2007: £18.98).

In respect of the options outstanding at 31st December 2008 in table 4 the weighted average exercise price is £9.52 (2007: £9.74) and the weighted average remaining contracted life is 3.4 years (2007: 4.1 years).

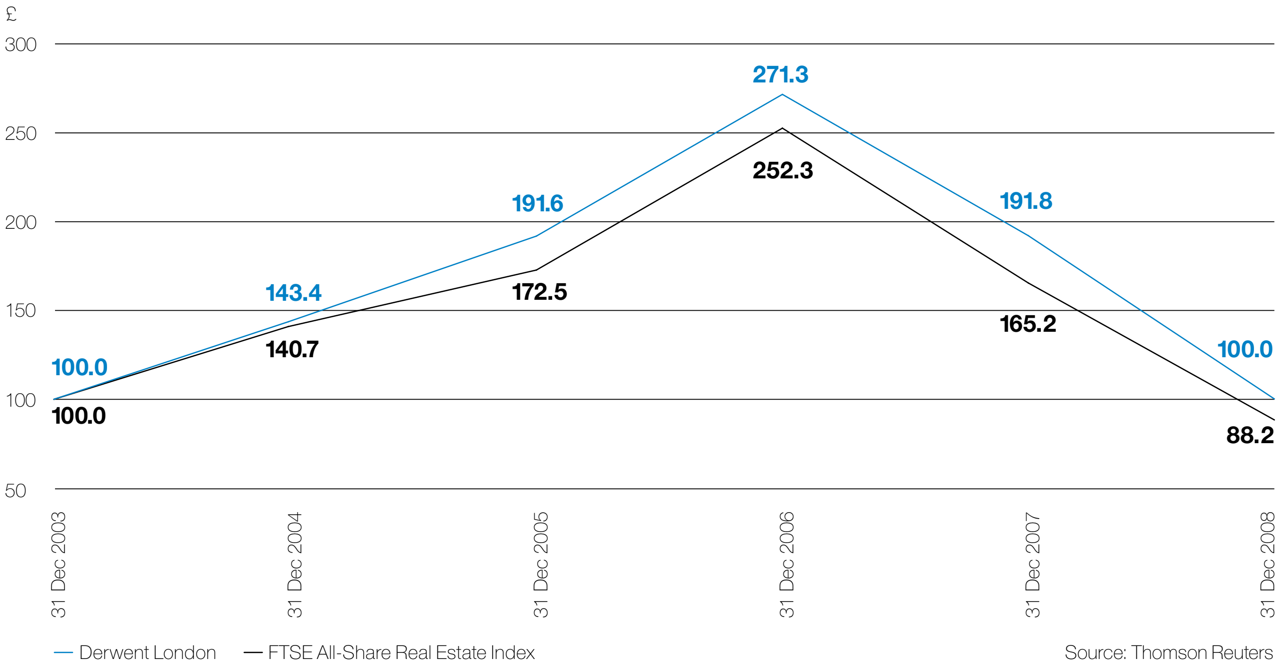
The market price of the 5p ordinary shares at 31st December 2008 was £7.25 (2007: £14.14). During the year, they traded in a range between £6.07 and £16.01 (2007: between £13.09 and £22.80).

Performance graph

Total shareholder return compared to the FTSE All-Share Real Estate Index.

Net investment

2003–2008



This graph shows the value, by the end of 2008, of a return over five years of £100 invested in Derwent Valley Holdings / Derwent London compared to that of £100 invested in the FTSE All-Share Real Estate Index. 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 Part 3 of Schedule 7A of the Companies Act 1985.

On behalf of the board

R. A. Farnes
Chairman of the remuneration committee
17th March 2009

Membership

Mr Neathercoat was chairman of the committee which was served throughout 2008 by Messrs Corbyn, Farnes and Newell together with Mrs de Moller. All members are considered independent by the company having no day-to-day involvement with the company. Mr Neathercoat is a member of the Institute of Chartered Accountants of England and Wales 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 meets at least three times a year to discharge its responsibilities. Meetings are attended by the group's external auditors and members of the group's senior management when invited. During 2008, four meetings were held.

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 adopted and estimates made.
- Reviewed the group's published interim management statements.
- Held meetings with the group's external valuers.
- Reviewed the scope of the annual audit and the level of associated fees.
- Considered the adequacy of the auditors' statement of independence and monitored the operation of the group's policy regarding the use of the external auditors for non-audit work which helps to protect the auditors' independence and objectivity.

  A major source of non-audit work each year for the group's auditors is tax compliance work. The committee has considered this arrangement and continues to be of the opinion that this is an efficient arrangement that does not compromise the auditors' independence.
- After due consideration of the conduct of the audit and the matters raised in the management letter, recommended the re-appointment of the group's external auditors.
- Commissioned a review of the operation of certain specific aspects of the group's internal controls system.
- Considered the need for an internal audit function.
- Reviewed the group's conflict of interest register.
- Reviewed, commented upon and approved the preparation of the group's risk register.

S.J. Neathercoat
Chairman of the audit committee
17th March 2009

Membership
The nominations committee comprised the independent, non-executive directors, Messrs Neathercoat, Corbyn, Newell and Farnes together with Mrs de Moller, under the chairmanship of Mr Ivey.

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 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 external candidates to fill vacancies and, if requested, make a recommendation concerning an internal appointment.

Work of the committee
During the year, the committee has carried out the following:

- Appraised the board and its committees.
- Discussed the composition, independence and refreshment of the board.

J.C. Ivey
Chairman of the nominations committee
17th March 2009

Independent auditors' report to the shareholders of Derwent London plc

We have audited the group and parent company financial statements (the 'financial statements') of Derwent London plc for the year ended 31st December 2008 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the business review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December 2008;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
17th March 2009

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Gross property income	**119.0**	111.7	51.3	49.5	52.1
Net property income	**95.5**	103.8	58.0	46.6	48.0
Recurring profit before tax	**23.3**	38.0	16.4	16.7	18.3
Profit on disposal of properties and investments	**1.2**	130.8	2.9	9.6	24.9
(Loss)/profit before tax	**(606.5)**	(99.8)	242.8	150.4	91.1
Net assets	**1,215.0**	1,841.9	783.4	606.2	495.5
Investment property at fair value	**2,108.0**	2,671.7	1,282	1,009.8	906.2
Revaluation (deficit)/surplus	**(602.1)**	90.3	223.2	124.1	46.4
Net debt	**865.4**	782.8	349.8	303.9	341.5
Cash flow	**(83.7)**	116.9	(59.4)	34.5	(17.9)
Net cash inflow/(outflow) from operating activities	**38.3**	28.4	(5.6)	13.7	12.9
Acquisitions	**31.9**	140.7	48.9	40.3	88.7
Capital expenditure on properties	**72.9**	68.3	18.9	26.7	26.1
Disposals	**72.6**	352.4	31.2	97.8	76.9
Recurring earnings per share (p)	**22.83**	35.14	27.44	26.23	29.91
Dividend per share (p)	**23.15**	18.025	13.95	12.83	11.70
Adjusted net asset value per share (p)	**1,226**	1,801	1,770	1,335	1,074
Net asset value per share (p)	**1,170**	1,770	1,460	1,134	930
Total return (%)	**(30.6)**	2.8	33.6	25.5	17.2
Gearing					
Balance sheet (%)	**71.2**	42.5	44.7	50.1	68.9
Profit and loss	**1.88**	1.81	1.85	1.85	1.76

A list of definitions is provided on page 95.

A portfolio focussed on the central London villages, particularly in the West End

Value	Rent roll	Average passing rent
£2,108.0m	£126.4m p.a.	£266 per m^2
Size	**Estimated rental value**	**Vacancy rate**
520,400m^2	£167.8m p.a.	3.8%

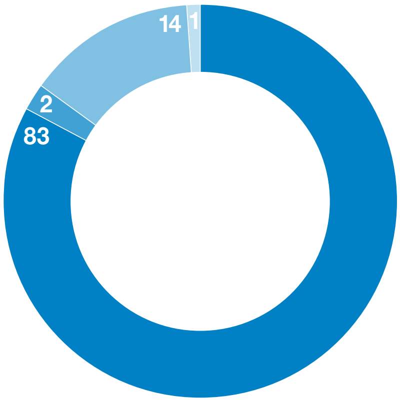
Provincial: 6%
Percentages weighted by valuation

Awards

In 2008, Derwent London's commitment to high quality design was recognised through a series of awards. Our recent office project in Dorset Square, Marylebone, won two – the prestigious Leading European Architects Forum award for best private commercial building and the Stone Federation's natural stone award. In addition, the Johnson Building in Holborn won a RIBA London Award and Portobello Dock won the Kensington & Chelsea Environment Award.

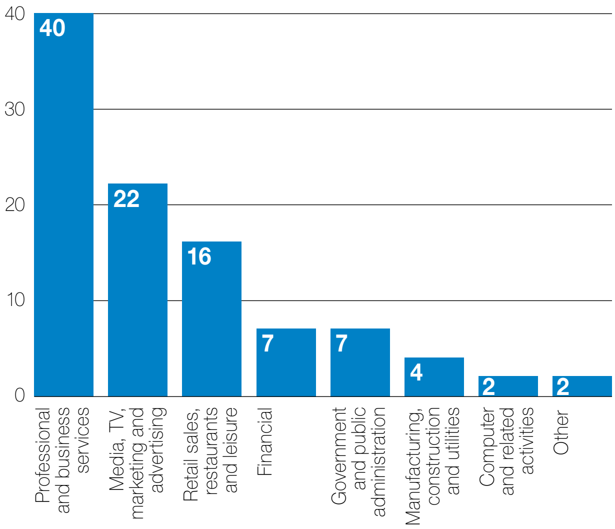
A wide range of tenancies and a diverse tenant profile

Value of portfolio by tenure
%



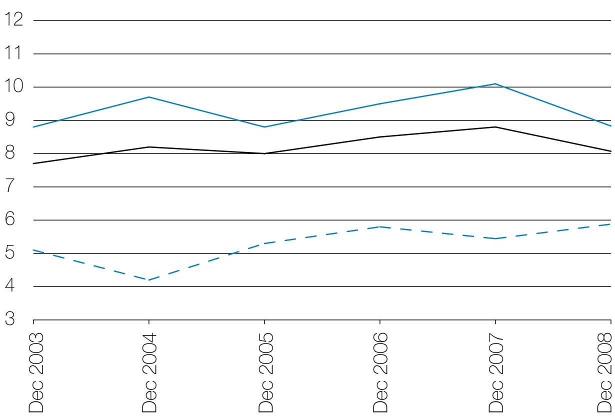
	£m
Freehold	1,746.9
Leasehold over 100 years	38.8
Leasehold 50 to 100 years	292.8
Leasehold under 50 years	29.5
	2,108.0

Profile of tenants' business sectors
Contracted rental income %



Leases with an average unexpired length of 8.3 years and reversionary potential

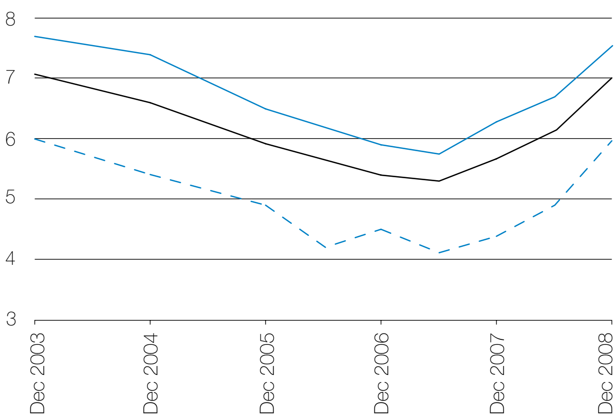
Average unexpired lease length[1]
Years



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

West End — City borders — Central London

Portfolio yields
%



Initial yield — True equivalent yield — Reversionary yield


Qube, W1


Horseferry House, SW1


Tower House, WC2


1-5 Grosvenor Place, SW1

	Offices (O), Retail/restaurant (R), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m²
West End: Central (68%)			
Fitzrovia/Euston (25%)			
132-142 Hampstead Road, NW1	O/I	F	21,500
80 Charlotte Street and 23 Howland Street, W1	O	F	18,600
8 Fitzroy Street & 18-24 Howland Street, W1[1]	O	F	13,200*
Qube, 90 Whitfield Street, W1	O/R	F	10,000
13 Fitzroy Street, W1[2]	O	F	8,400
95-100 Tottenham Court Road, W1	O/R	F	6,400
Middlesex House, 34-42 Cleveland Street, W1	O	F	6,000
88-94 Tottenham Court Road, W1	O/R	F	4,900
163-170 Tottenham Court Road, W1	O/R	F	4,300
80-85 Tottenham Court Road, W1	O/R	F	4,100
60 Whitfield Street, W1	O	F	3,400
120-134 Tottenham Court Road, W1[3]	R	F	2,700
53-65 Whitfield Street, W1	O	F	2,700
43 and 45-51 Whitfield Street, W1	O	F	2,200
Victoria (11%)			
Horseferry House, Horseferry Road, SW1	O	F	15,100
Greencoat and Gordon House, Francis Street, SW1	O	F	11,900
Riverwalk House, 157-166 Millbank, SW1	O	F	6,900
Premier House, 10 Greycoat Place, SW1	O	F	5,800
6-8 Greencoat Place, SW1	O	F	3,100
232-242 Vauxhall Bridge Road, SW1	O	F	2,100
Soho/Covent Garden (10%)			
Bush House, South West Wing, Strand, WC2	O	F	10,000
Covent Garden Estate, WC2:	O/R	F	6,700
19-26 and 19a Floral Street			
26 and 27-32 King Street			
34 Rose Street			
Charing Cross Road, WC2:	O/R	F	5,700
135-155 Charing Cross Road			
The Courtyard, Sutton Row			
Tower House, 10 Southampton Street, WC2	O/R	F	4,900
Davidson Building, 5 Southampton Street, WC2	O/R	F	3,900
Jaeger House, 57 Broadwick Street, W1	O/R	F	2,300
Noho (7%)			
Holden House, 54-68 Oxford Street, W1	O/R	F	8,400
Henry Wood House, 3-7 Langham Place, W1	O/R	L	7,400
16-19 Gresse Street and 7-8 Rathbone Place, W1	O	L	5,500*
75 Wells Street, W1	O	L	3,200
Belgravia (6%)			
1-3 Grosvenor Place, SW1	O	L	7,700
4-5 Grosvenor Place, SW1	O	L	7,300
Marylebone/Baker Street (5%)			
19-35 Baker Street, W1	O/R	L	6,700
88-110 George Street, W1	O/R	L	2,400
30 Gloucester Place, W1	O	L	2,200
28 Dorset Square, NW1	O	F	2,200
16-20 Baker Street and 27-33 Robert Adam Street, W1	O/R	L	2,000
17-39 George Street, W1	O/R	L	2,000
Mayfair (2%)			
25 Savile Row, W1	O/R	F	3,900
Paddington (2%)			
55-65 North Wharf Road, W2	O	L	7,800

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

[1] Arup Phases II & III.
[2] Arup Phase I.
[3] In addition, includes a 324-room hotel.
* Proposed areas.
() Percentages weighted by valuation.


88 Rosebery Avenue, EC1


Oliver's Yard, EC2


The Johnson Building, EC1


Tea Building, E1

Planning consents

	Net contracted rental income per annum £m	Existing floor area m²	Proposed floor area m²	Floor area uplift %	Comments
Paddington 55-65 North Wharf Road, W2	1.7	7,800	29,400	276	Planning consent was granted in January 2008 for the redevelopment of these low rise 1960s buildings, which occupy a prime Paddington Basin location. This major project would provide a 22,300m² office building, a 100-unit residential block totalling 6,800m² and 270m² of retail space.
Clerkenwell The Turnmill, 63 Clerkenwell Road, EC1	0.3	4,200	6,000	44	Planning consent obtained in December 2007 for a comprehensive refurbishment and the addition of two floors.
Southbank Wedge House, 30-40 Blackfriars Road, SE1	0.3	3,600	7,500	108	Planning consent was granted in January 2008 for a new ten-storey office development in this improving Southbank location.
Holborn 40 Chancery Lane, WC2*	1.1	6,600	9,100	38	Planning consent obtained in February 2008 for a new office building. This would replace three buildings; two of which we have an interest in and an adjacent building of 900m², which is owned by the freeholder of part of our ownership.
Old Street City Road Estate, EC1	0.8	9,500	23,300	147	A planning permission obtained on appeal in October 2008 to redevelop the existing collection of buildings to provide 13,100m² of residential and 10,200m² of commercial space.
18-30 Leonard Street, EC2	–	Site	5,100	n/a	Planning consent for 3,200m² of residential (47 units) and 1,900m² of offices.
	4.2	**31,700**	**80,400**	**154**	

* includes Tooks Court

Appraisal studies

	Net contracted rental income per annum £m	Existing floor area m²	Comments
Euston 132-142 Hampstead Road, NW1	2.0	21,500	This building offers a significant redevelopment opportunity and possible planning integration with our Fitzrovia Estate. Our initial studies show there is the potential for a substantial office and residential development.
Fitzrovia 80 Charlotte Street, W1	4.7	18,600	A large island block occupied by Saatchi & Saatchi with medium-term redevelopment potential. Architects are evaluating a number of massing options for a predominantly office development.
Belgravia 1-5 Grosvenor Place, SW1	6.5	15,000	Two substantial office buildings occupying a landmark location on Hyde Park Corner and offering significant redevelopment potential. Planning studies are being evaluated in conjunction with our freeholders the Grosvenor Estate.
Soho 135-155 Charing Cross Road, WC2	2.4	5,700	This is the proposed location for a major Crossrail transport interchange which received Royal Assent in July 2008. Its implementation would unlock significant development potential and we retain the option to develop the site when the station works are complete. Planning studies are being finalised and a planning application is being prepared for submission later this year.
Victoria Riverwalk House, 157-166 Millbank, SW1	2.3	6,900	A prime riverside location overlooking the Thames. Potential to substantially increase the site density through redevelopment when the lease expires in 2011.
	17.9	**67,700**	

Principal lettings

	Approximate net area m²	Rental per annum £m	Headline rental £ per m²	Comments
Angel Building, EC1	13,000	5.60	440	Pre-let to Cancer Research UK.
Qube, W1	4,100	2.32	625	Four lettings: Office floors to HOK International and Tribal Group; and retail units to Space NK and Tossed.
Greencoat and Gordon House, SW1	2,425	1.32	620	Two lettings in Greencoat House; British Wind Energy Association and Sucre Export London. A pre-let of three floors in Gordon House to The Benefit Express.
Tea Building, E1	3,970	0.96	270	Eleven lettings including a pre-let to Soho House to provide a 25 bedroom boutique hotel.
151 Rosebery Avenue, EC1	1,800	0.73	430	Five floors pre-let to Momentum Activating Demand.
163-170 Tottenham Court Road, W1	2,100	0.70	340	Short-term letting to Arup.
Oliver's Yard, EC2	1,810	0.62	345	Expansion space for existing tenant, Morningstar UK.
Davidson Building, WC2	600	0.43	725	Expansion space for existing tenant, LECG.
North Wharf Road, W2	1,900	0.41	215	Various short-term lettings.
1-3 Grosvenor Place, SW1	720	0.36	505	Eighth floor let to Richmond Park Capital.

Principal rent reviews and asset management initiatives

	Approximate net area m²	Rental per annum £m	Headline rental £ per m²	Comments
80 Charlotte Street, W1	15,100	4.60	305	Saatchi & Saatchi rent review settled to show a 45% increase.
13 Fitzroy Street, W1	8,400	4.46	530	Rent review completed at Arup Phase I, reflecting a 14% increase.
88 Rosebery Avenue, EC1	5,085	1.72	340	Government rent review concluded with a 6% increase.
Oliver's Yard, EC2	4,405	1.53	355	Four rent reviews settled reflecting an overall uplift of 34%.
60 Whitfield Street, W1	3,365	1.46	435	Rent review completed with a 16% increase.
1-3 Grosvenor Place, SW1	6,900	1.20	n/a	Lease surrender with Hanson which enhanced the rental income and facilitates long term redevelopment.
25 Savile Row, W1	1,375	1.19	890	Rent review settled to show an uplift of 68% and a lease renewal that doubled the rental income.
135-155 Charing Cross Road, WC2	1,435	0.76	430	Five rent reviews settled showing an overall increase of 21%.
Greencoat and Gordon House, SW1	1,390	0.66	490	Two renewals in Greencoat House completed reflecting a 58% increase and two reviews concluded in Gordon House to show a 63% uplift
Middlesex House, W1	1,990	0.53	455	Four rent reviews concluded to show a total increase of 29%.
120-134 Tottenham Court Road, W1	1,045	0.51	n/a	Seven retail units reviewed, averaging a 35% increase.

Net assets per share or net asset value (NAV)
Equity shareholders' funds divided by the number of ordinary shares at the balance sheet date.

Adjusted net asset value per share
NAV adjusted to exclude deferred tax on the property revaluation surplus and fair value adjustments to the carrying value of assets and liabilities.

Recurring net property income
Net property income excluding development income.

Recurring profit before taxation
Profit before tax excluding development income, exceptional items, goodwill impairment, the revaluation movement in investment properties and financial instruments and the profit on disposal of properties and investments.

Earnings per share (EPS)
Profit for the year attributable to equity shareholders divided by the weighted average number of ordinary shares in issue during the financial year.

Recurring earnings per share
Earnings per share adjusted to exclude the after tax effect of non-recurring items, profits or losses on sales of properties and investments, and the fair value adjustments to the carrying value of assets and liabilities.

Diluted earnings per share
Earnings per share adjusted to include the dilutive effects of potential shares issuable under the group's share option schemes. However, a loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

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 and loans less cash and cash equivalents.

Balance sheet gearing
Net debt divided by net assets.

Profit and loss gearing
Current:
Recurring net property income, excluding reverse surrender premiums and the write-down of trading properties, less administrative expenses divided by net interest payable, having reversed the re-allocation of ground rent payable on leasehold investment properties to interest payable.
2009 onwards:
Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable. This is similar to the group's most commonly used interest cover ratio covenant.

Property gearing
The nominal value of borrowed funds divided by the fair value of investment property. This is equivalent to the loan to value calculations used in the group's bank covenants.

Ground rent
The rent payable by the group at 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.

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 year plus the dividend per share paid during the year, expressed as a percentage of the adjusted net 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.

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 period.

Rent roll
The annualised contracted rental income, net of ground rents.

Initial yield
The rent roll generated by a property or by the portfolio as a whole expressed as a percentage of its valuation. Where applicable, the valuation is adjusted to include any capital expenditure required for scheme completion.

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.

Reversionary yield
The anticipated yield based upon the valuers' estimated rental value of a property or portfolio, expressed as a percentage of its valuation. Where applicable, the valuation is adjusted to include any capital expenditure required for scheme completion.

Reversion
The reversion is the difference between the rent roll of a property or portfolio and the rental value as estimated by the group's external valuers. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

Underlying portfolio
Properties that have been held for the whole of the financial year.

Vacancy rate
The rental value of vacant space in a property or portfolio, that is immediately available for occupation, expressed as a percentage of the estimated rental value.

Financial calendar

Issue of first quarter 2009 management statement	May 2009
Annual general meeting	27th May 2009
Payment of 2008 final dividend	19th June 2009
Announcement of 2009 interim results	August 2009
Issue of third quarter 2009 management statement	November 2009
Payment of 2009 interim dividend	November 2009
Announcement of 2009 results	March 2010

Advisers

Auditors
BDO Stoy Hayward LLP

Solicitors
Slaughter and May

Brokers
UBS
JP Morgan Cazenove

Clearing banker
HSBC Bank plc

Registrar
Equiniti

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