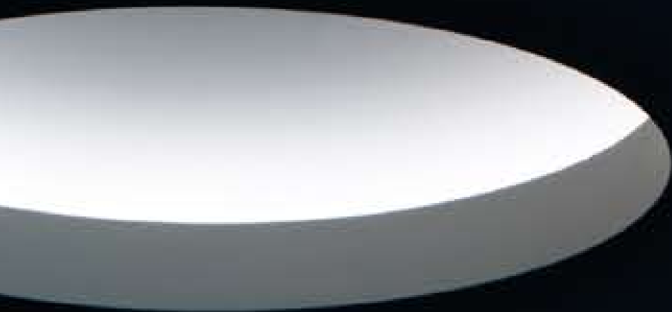
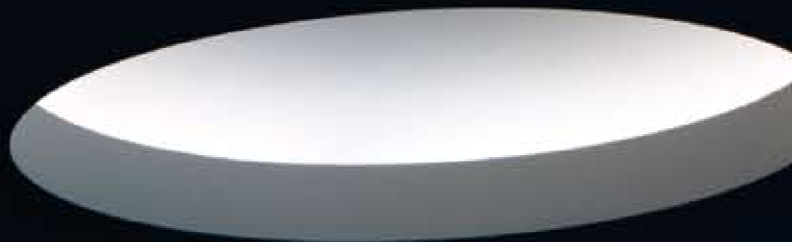
Derwent London plc Report & Accounts 2009

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Financial calendar and advisers IBC

Who we are

Derwent London is the largest central London focused real estate investment trust, owning a portfolio of 5.1 million sq ft (475,600m²) valued at £1.9 billion.

Strength of purpose is what defines us. Our business model has been developed to combine flair, innovation and management focus to add value to our extensive portfolio of properties and maintain a stable long-term financial position. Throughout the tough economic environment of the past two years we have continued to regenerate, refurbish and let our properties. This has proved that our business model is successful in various market conditions and is testament to our discipline and consistency. We are active and well capitalised, reinforcing our respected position in the property market. We nurture and improve our expanding portfolio, underpinned by the strength and depth of our team and our rigorous approach to portfolio management.

We have developed a reputation for anticipating the locations of tomorrow and contributing to London's regeneration. Both our commitment to the highest quality of sustainable building design and our focus on the communities in which we operate enable us to provide highly attractive space for our tenants.

Cover:
The Charlotte Building, W1

Overview

Our principal objective

Our principal objective is to add value to our properties to deliver above average long-term returns to shareholders.

We accomplish this by focusing on four strategic aims:

- sourcing interesting buildings where we can identify and create value;
- devising tailor-made planning solutions for each property and working closely with architects and designers to optimise innovative design;
- focusing on enterprising portfolio management; and
- maintaining financial stability through flexible funding and timely recycling of capital.

→ see page 14

At a glance

2009 key achievements

Mar Sale of Dorset Square **£16.8m**

EDF letting at Qube **£1.5m pa**

Jupiter letting at 1 Grosvenor Place **£0.4m pa**

Apr **£125.0m** bank facility refinanced

Jul Sale of Arup Phase I **£59.4m**

Aug 45 Whitfield Street pre-let to Target Media Group **£0.3m pa**

Oct Charlotte Building completed (4,400 m²) **£0.6m pa** pre-let

Qube **100%** let

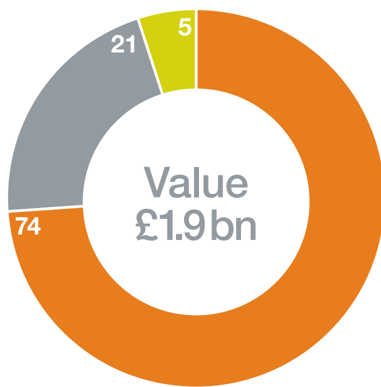
Nov Sale of The Rotunda **£41.4m**

Dec Completion of third and final Arup phase (7,900 m²)

Icon Entertainment letting at Charlotte Building **£0.3m pa**

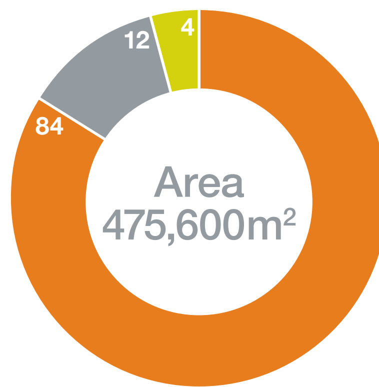
100th letting of the year to Innocent Drinks at Portobello Dock **£0.4m pa**

Profile of property ownership %



- West End
- City
- Provincial

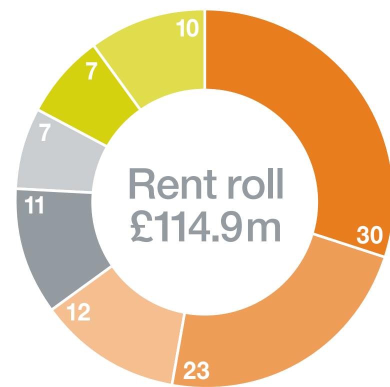
Profile of use types %



- Office
- Retail*
- Other

*including ancillary retail in office buildings

Profile of tenants' business sectors %



- Professional and business services
- Media, TV, marketing and advertising
- Retail sales
- Retail head offices, showrooms
- Financial
- Government and public administration
- Other

Lettings achieved

2009

31,500 m²

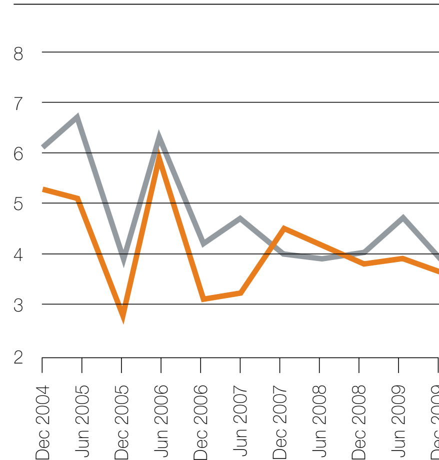
£9.3m pa

2008

45,300 m²

£16.3m pa

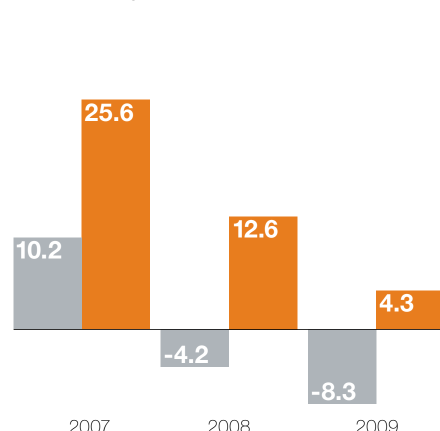
Consistently low vacancy rates %



- Derwent London (by ERV)
- Derwent London (by floor area)

Outperformance of IPD

Three year rolling property return (%)



- IPD All UK Property Index
- Derwent London

Financial highlights

Adjusted net asset value
2009
1,168p ↓ 5%
2008
1,226p

Recurring profit before tax
2009
£60.2m ↑ 158%
2008
£23.3m

Recurring net property income
2009
£114.8m ↑ 21%
2008
£95.0m

Recurring earnings per share
2009
55.55p ↑ 143%
2008
22.83p

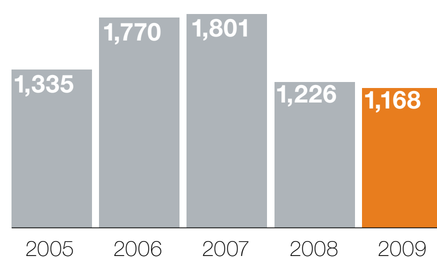
Gearing

Profit and loss (ICR)
2009
330%
2008
247%

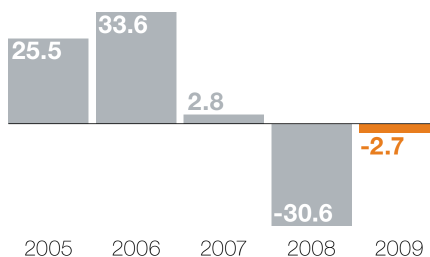
Balance sheet
2009
62.2%
2008
71.2%

Property (LTV)
2009
36.4%
2008
39.7%

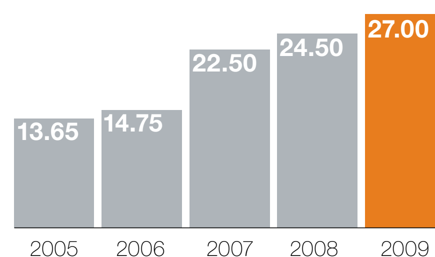
Adjusted net asset value per share p



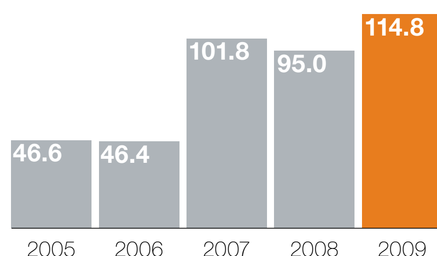
Total return %



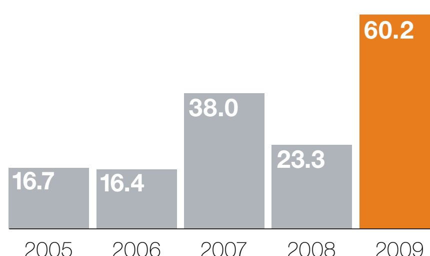
Dividend per share* p



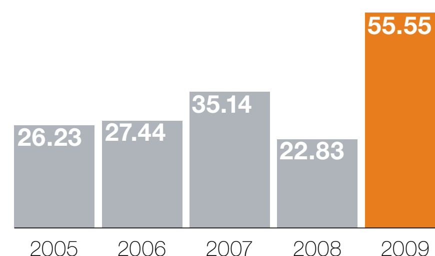
Recurring net property income £m



Recurring profit before tax £m



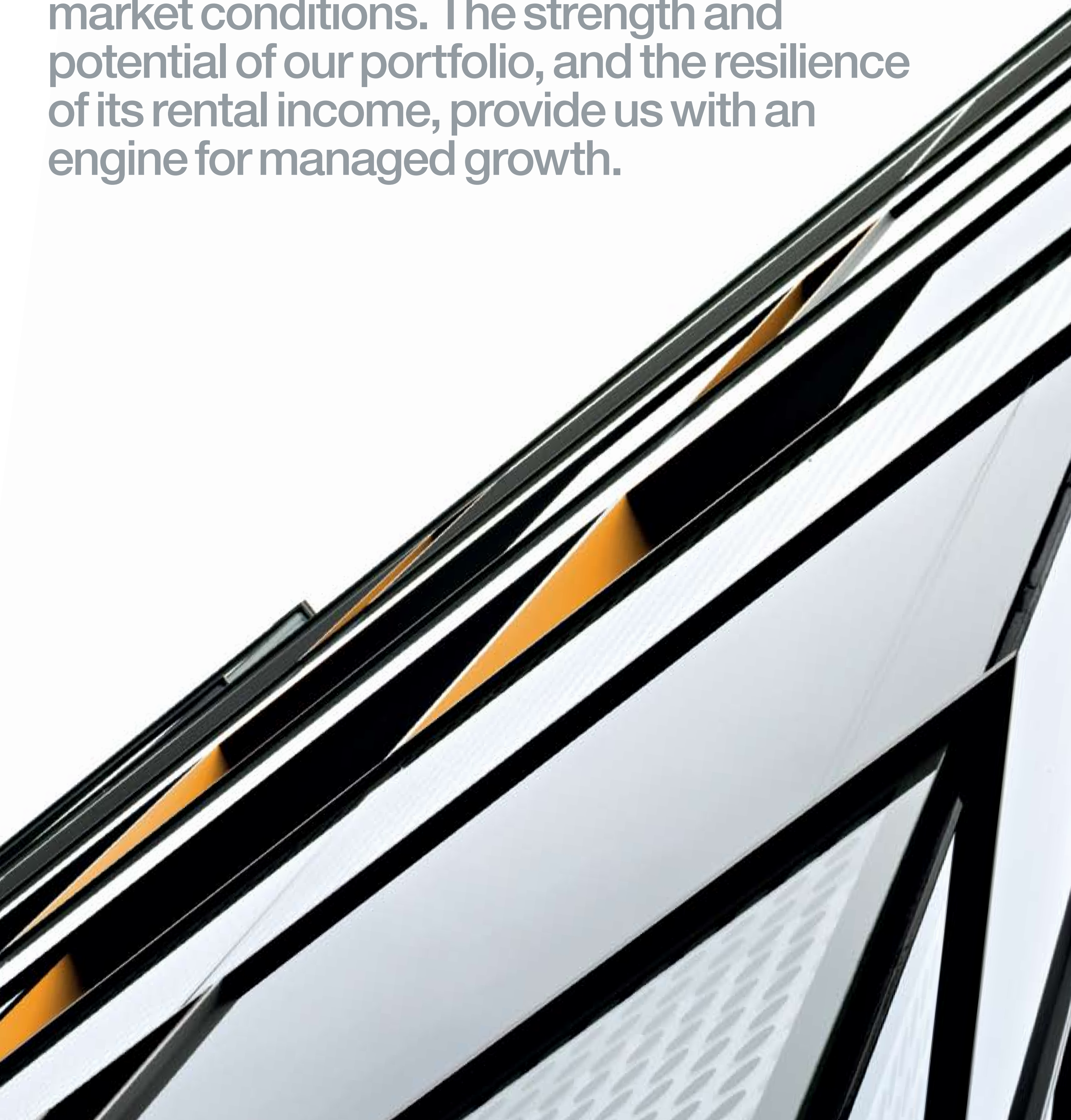
Recurring earnings per share p



*Based on the distribution of year's earnings
A list of definitions is provided on page 108

Chairman's statement

Derwent London's strong performance demonstrates the robustness of the group's business model even in extreme market conditions. The strength and potential of our portfolio, and the resilience of its rental income, provide us with an engine for managed growth.



Overview

Derwent London's strong performance during the year demonstrates the robustness of the group's business model even in extreme market conditions. This, together with the flexibility of the group's financing arrangements and management's ability to operate successfully in challenging circumstances, meant that Derwent is the only REIT in the FTSE 350 not to have raised equity during 2009.

The group excels in creating a unique brand of well-designed offices in favoured central London locations that provide tenants with contemporary space at mid-market rents. This attention to value and design contributed to the completion of over 100 lettings during 2009. Taken with the strong performance in 2008 when we completed 82 lettings, this is testament to the success of our product in a tough economic environment.

The focus of our portfolio was sharpened and our balance sheet strengthened after £208.3m of sales of non-core properties. Overall, these sales showed a discount of 7.4% from the December 2008 valuations.

The momentum of the group's regeneration programme was maintained during the year with capital expenditure of £91.5m being invested on various projects throughout the portfolio.

These achievements were reflected in the company's share price performance which resulted in a total shareholder return of 87%, making Derwent the top performing REIT in the FTSE 350 in 2009.

No major acquisitions were made in the year as we did not identify any opportunities that were sufficiently attractive to us. However, the group has many potential schemes within its portfolio of income-producing assets that can be developed to commence a new phase of innovative regeneration projects. Capital expenditure for 2010 is anticipated to be approximately £63m with a further £200m which could be incurred from 2011 onwards on identified schemes.

Results

Following a first half in which property values declined sharply, the second half of the year saw a strong rebound in our operational area of central London, with an upward revaluation of our portfolio from the half year of 9.8%. The net result was that, after a fall of 22.1% in 2008, the value of properties held throughout the year contracted by only 3.3% during 2009. This compares to a fall of 5.4% in the IPD Central London Offices Capital Growth Index.

Adjusted net asset value per share at 31st December 2009 was 1,168p against 1,226p a year earlier, a decrease of 4.7%.

Recurring profit before tax for the year, which excludes a number of items described in the finance review, was £60.2m against £23.3m in 2008. Consequently, recurring earnings per share rose to 55.55p from 22.83p. The board is proposing an increase in the final dividend of 15% to 18.85p which, as a REIT, will all be paid as a Property Income Distribution on 17th June 2010 to shareholders on the register on 21st May 2010. Together with the interim dividend, which was maintained at 8.15p per share, this makes a total dividend for the year of 27.00p per share, an increase of 10% on 2008. This reflects the board's commitment to a progressive dividend policy balanced by prudent cash management.

The group continues to be in excellent financial health. Balance sheet gearing has been reduced to 62.2% from 71.2% a year earlier and unutilised, committed bank facilities increased to £425m as at 31st December 2009 from £291m last year. All financial covenants were exceeded comfortably throughout the year, a reflection of the attention given to our financing arrangements to ensure that we have a stable financial structure. This approach continues to be a key feature of the group's business model.

The board

As announced in September 2009, Chris Odom, our Finance Director for almost 22 years, has decided to retire and he will be leaving the company after the annual general meeting in May 2010. Chris has been a key member of both the board and the executive management team, overseeing the successful financing of the business through recession and expansion. We wish him well in his retirement. Chris's successor, Damian Wisniewski, joined the board on 1st February 2010 when Chris stepped down as a director. Damian has had considerable experience within the property sector and is a welcome addition to our well regarded management team.

Outlook

Economic indicators have yet to demonstrate a sustained recovery but rents within our central London villages have virtually stabilised and, for the first time since early 2008, an anticipation of rental growth is emerging. We have seen a significant recovery in property values in our operational area with yields reduced through a strong demand for investment property, albeit with bank finance to the real estate sector remaining in limited supply.

The strength and potential of our existing portfolio, and the resilience of its rental income, provide us with an engine for managed growth that can respond to the prevailing economic conditions. As the recovery of the central London economy appears to be gathering momentum, we continue to seek buildings where we can implement Derwent's distinctive brand of regeneration and are preparing to advance the timing of some of our schemes. I am confident that with their skills, flair and experience, your management team will continue to position the group successfully through the next phase of the central London property cycle.

R.A. Rayne
17th March 2010

The Charlotte Building, W1

Our market

Investor confidence returned during the second half of 2009

The UK economy officially left recession during the fourth quarter of 2009, supported by a combination of low interest rates, high government intervention and resilient consumer spending. Official figures from the Office for National Statistics, however, revealed that GDP growth in the fourth quarter was only 0.3%, indicating that the recovery is still fragile. This followed six quarters of economic decline and one of the deepest downturns on record. Overall, the UK economy contracted 5.0% in 2009 compared to growth of 0.5% in 2008 and 2.6% in 2007.

Now that economic recovery is tentatively under way, the health of London's economy is crucial for driving the UK's future growth. The capital city generates more than one fifth of the UK's economic output, is Europe's premier financial centre and is home to one of the most diverse, highly skilled and versatile labour pools in the world. London's cosmopolitan culture and vibrant lifestyle add to the city's long-term attractiveness to national and international occupiers.

This global city is our marketplace, in which we own and manage a diverse portfolio of innovative, intelligently designed yet affordable properties in a range of strategic central locations, with a particular focus on the West End.

Central London office occupier market

The central London office market comprises more than 20 million m^2 (216 million sq ft). Within this, 49% of stock is located in the City, 42% in the West End and 9% in Docklands. In general, the West End – the geographical focus of our business – has the broadest tenant base. The area is home to a vibrant mix of media companies, professional and business services firms and specialist fund management houses. In contrast, the City and Docklands have a narrower focus on banking, insurance and legal services.

Recent office space statistics from leading surveyors CB Richard Ellis (CBRE) highlight the positive impact of the economic turnaround on our market. While take-up of central London office space hit a 20-year low of 258,000m^2 during the first half of 2009, it rebounded to an above-average level of 581,000m^2 during the second half of the year.

CBRE's statistics also show trends in central London office vacancy rates that offer further reasons to be positive. Vacancies for the overall central London office market began 2009 at 5.3% and peaked at 7.7% in June, before falling to 7.2% by the end of the year. Looking at the second half of 2009 by sub-area, vacancy rates in the West End fell from 7.4% to 6.8%, while those in the City fell from 10.0% to 8.5%. This trend supports our strategy of delivering new office space to the market over the next few years. This strategy is reinforced by the fact that there has been little property development since the market slowdown and this is not expected to pick up in the near future with central London office completions estimated to total 382,000m^2 in 2010 and 100,000m^2 in 2011. Such levels are considerably lower than the long-term annual average of 504,000m^2.

Improved operating conditions are starting to translate into signs of rental stabilisation. Again, with our mid-market, West End focus, Derwent London is particularly well placed to benefit from this trend. At the year end, prime rents stood at £860 per m^2 (£80 per sq ft) in the West End and £475 per m^2 (£44 per sq ft) in the City. This compares to our competitive mid-market rental focus of £325-£540 per m^2 (£30-£50 per sq ft), which has proven more resilient to the effects of the downturn. We are now seeing a decrease in tenant incentives and believe that selective rental growth will return to our markets during 2010. The West End, where the supply-demand imbalance is most acute, and where the majority of our activities are focused, should experience the strongest market recovery. A new rating valuation takes effect from 1st April 2010 to be phased in over the next two to three years. This will increase tenants' total occupation costs. However, it is anticipated that the effect at Derwent London properties will be lower than at buildings in higher rental areas.

Central London office investment market

Investor confidence returned during the second half of 2009, with the lending market easing slightly, transaction levels improving, yields compressing and values rising. As a result, central London office investment transactions in the second half of 2009 totalled £4.7bn – substantially higher than the £2.3bn worth of transactions during the first half of the year and in line with the long-term average.

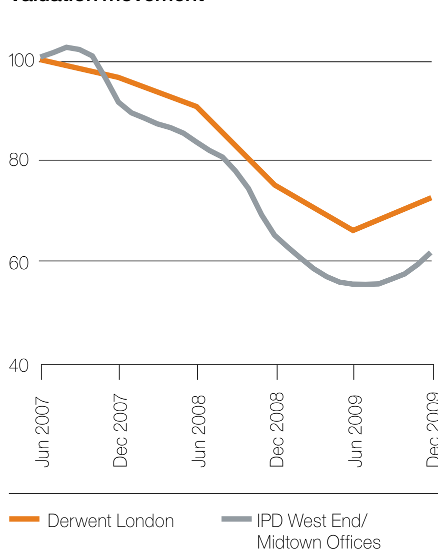
Early in 2009, the investment focus in London centred on properties secured on long-term income. However, with a limited supply of such assets, demand spread to a wider range of properties as the year progressed.

Attracted by the weakness of sterling, overseas buyers accounted for 73% of central London transactions in 2009 compared to the 10-year average of 49%. UK property companies comprised 11% of total activity, while domestic institutions accounted for 6%.

The IPD Monthly Property Index for West End/Midtown offices provides a clear illustration of the severity of capital value movements over the recent downturn. From peak to trough, over a 23-month period between August 2007 and July 2009, the index declined by approximately 45%. This adjustment was considerably quicker than that seen during the early 1990s recession, when the peak to trough period was 40 months and values declined by a similar amount.

The subsequent pick-up in values in the current cycle has been equally pronounced, with yield compression driving the above index up by more than 10% during the last five months of 2009.

Valuation movement[1]



[1] June 2007 = 100

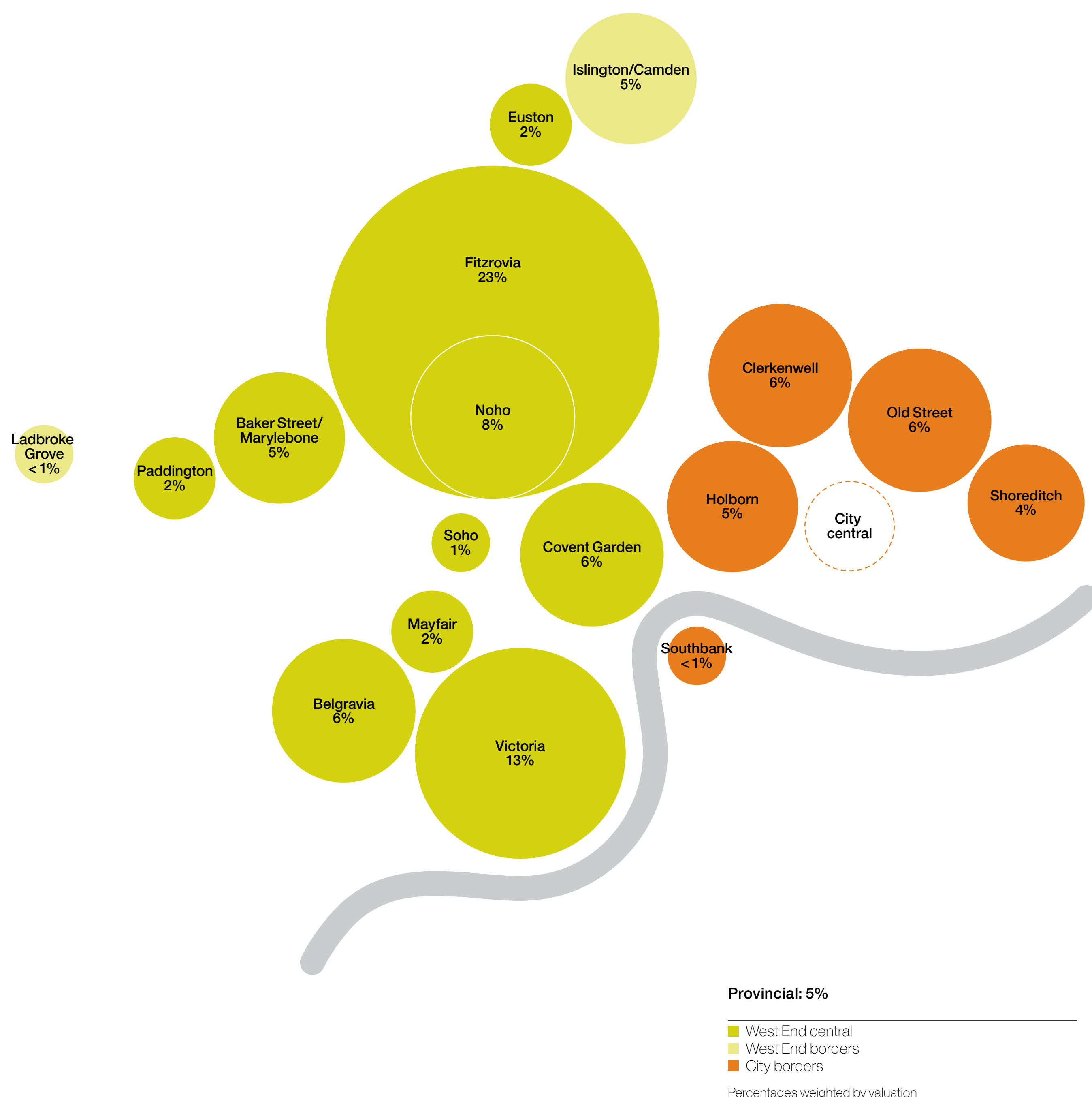
Our portfolio

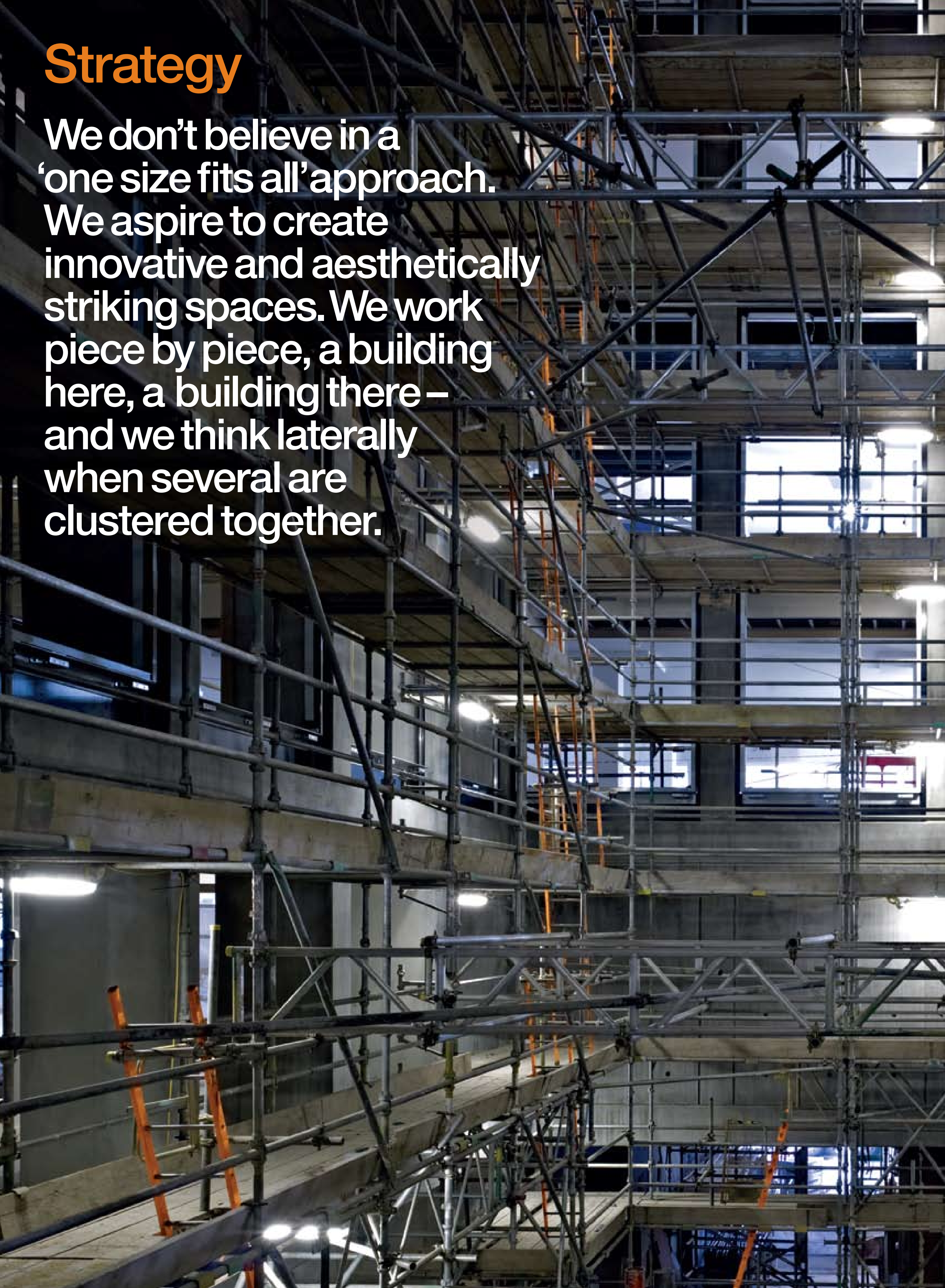
Our property portfolio comprises 475,600m^2 (5.1 million sq ft) and is focused on design-led, innovative central London offices, predominantly in the West End. This concentration plays to our core strengths: extensive experience, knowledge and expertise built up over time operating in these locations.

In total, the West End comprises 74% of our portfolio, with key ownerships in Fitzrovia, Victoria, Soho, Covent Garden, Noho and Belgravia. The City borders, including Clerkenwell and Holborn, account for 21% of our properties.

Our portfolio is let to nearly 600 tenants, which collectively generate an annualised net contracted rental income of £114.9m. Our two largest business sectors are representative of the tenant profile across the West End: professional and business services (30%) and media, television, marketing and advertising (23%). This dynamic tenant base has been particularly robust during the downturn, with rental default rates remaining at a low level throughout the year.

Other characteristics of our portfolio are a low void rate and affordable mid-market rents that have remained reversionary. It is a portfolio that holds substantial value-creating opportunities, the full potential of which will be realised through asset management and the delivery of quality space, through redevelopment, regeneration or refurbishment.





Strategy

We don’t believe in a ‘one size fits all’ approach. We aspire to create innovative and aesthetically striking spaces. We work piece by piece, a building here, a building there – and we think laterally when several are clustered together.

Distinctively Derwent

Design focused and value driven ethos

Each building treated as a unique opportunity

All property companies are not the same. The difference with Derwent London is our resolute concentration on our particular markets accompanied by a painstaking attention to detail. This is allied with our dedication to finding opportunities, transforming properties, increasing floorspace, adding value and attracting, and looking after our tenants.

Since our formation, we have always concentrated our activities in central London, with a particular focus on the West End. It is rare for us to venture outside London. We not only know London, we have an intimate knowledge of each of our 17 different 'villages' within the capital, → see page 102 and the people who work and live in them. We appreciate the different characters and cultures of London's villages, and we can map a distinctive future for each of them.

We treat each building as a unique opportunity. While our approach to every property is consistent the solution for each will be different. → see page 18 Our business model has been proven and refined over time; it concentrates on refurbishment and regeneration and, only when appropriate, outright redevelopment. The only aspect that has changed over the years is that today we are able to work with larger properties, while maintaining our focus on the detail.

Not only do the directors have a wealth of experience within the property industry, they also have the detailed knowledge of our focused market gained from an average of 17 years with the company. → see page 46 In combination with a highly skilled management team, we have a very strong track record in helping reshape central London through inspirational design backed with sound business sense.

Despite the recent challenging economic climate, we have maintained a steady flow of new tenants, many of them household names. This is not the result of reacting with a short-term masterplan to beat the recession; rather it is the fruit of our long-term vision to create inspiring buildings. Our ethos has always been design-focused and value driven and we still strive to create exciting spaces for tenants that are distinctive and one step ahead of our competition. Our continuing goal is to provide arenas for new ideas and new communities to thrive in.

We work in a number of ways to understand our tenants' requirements and maintain communication from the very start of their interest in a property and throughout their occupation, building extremely close relationships. → see page 17 In combination with a skilled lease management team, this translates into a high percentage of tenant retention following breaks and expiries as well as a historically low void rate. Coupled with these factors is our extensive use of fresh architectural, design and artistic talent. We build strong enduring relationships across multiple projects in order to obtain the highest levels of creative input. The communities we help to shape see the benefit along with our shareholders.

Our current portfolio is balanced from a number of different aspects:

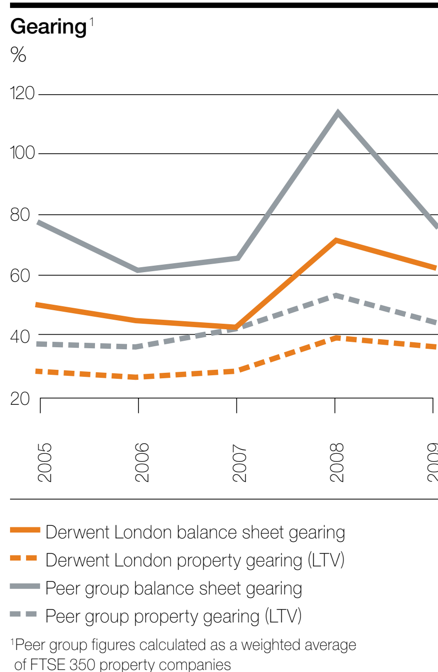
- an emphasis on income producing buildings that offer refurbishment and development opportunities;
- a variety of types, sizes and locations of buildings;
- exposure to a wide variety of tenant sectors; and
- a focus on letting at mid-market rents, which provide value for tenants and growth opportunities for the group.

We are highly innovative not only in terms of plans for our buildings but also in respect of lease management solutions. Over the past three years, we have negotiated surrenders and changes in lease terms with several of our tenants at buildings including the Angel Building, 1-5 Grosvenor Place, the Charlotte Building and 71-81 Whitfield Street. All of these negotiations have provided us with increased control to progress our future plans for these buildings and their surrounding areas.

Our long-term financing approach has been 'keep it simple, keep it flexible', maintaining a straightforward loan structure with our core lenders backed by a sensible hedging policy. We have also maintained sustainable levels of gearing which have typically been lower than those of our peers.

Previous page: The Angel Building, EC1

‘Keep it simple, keep it flexible’ approach to financing



[1]Peer group figures calculated as a weighted average of FTSE 350 property companies

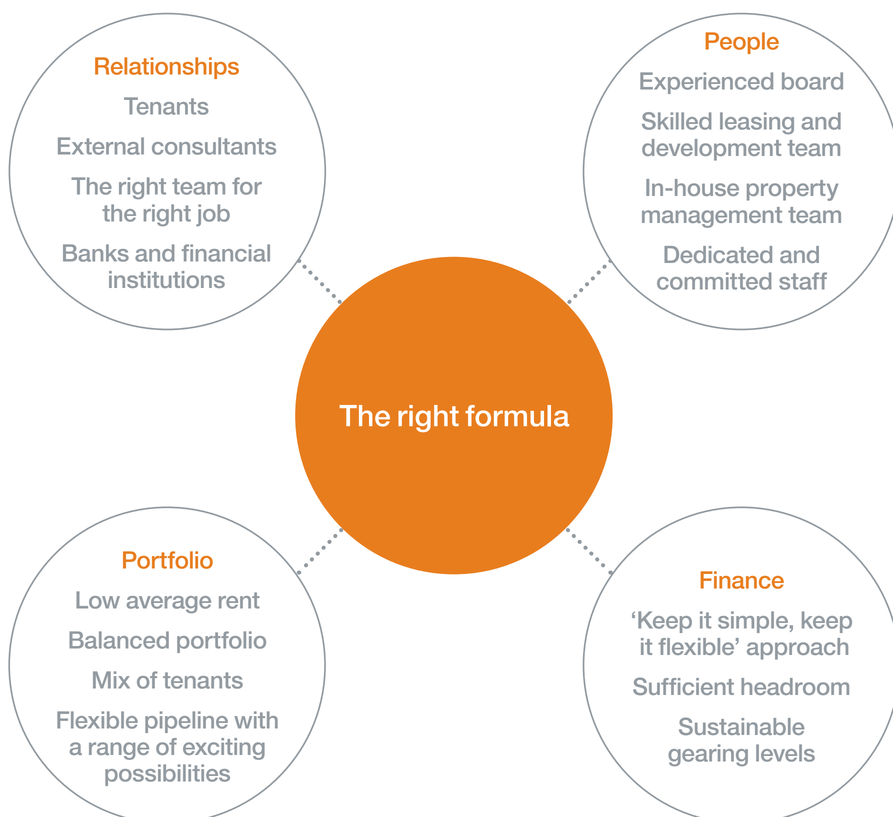
This approach has contributed to the fact that, during a year when the majority of other listed property companies went to the market for additional funding through deeply discounted rights issues, we were the only major REIT not to raise equity in 2009. The average discount across the listed property sector for these cash calls was 64%. This has contributed to our shareholder return of 86.7% during 2009, a significant outperformance versus the FTSE All-Share Real Estate Investment Trust Index of 11.4%.

Over the years, we have cultivated strong relationships with institutional investors and banks, which have provided us with equity and loan finance. The experience and stability of our management team, the consistency of our message and an approach to risk that rewards our shareholders without endangering the business have all contributed to our reputation. We have put in place flexible and affordable finance that works with our portfolio matched by hedging and financial covenants that provide us with resilience. It is testament to the strength of our banking relationships and to the banks' support for the group and its covenant position that, during the challenging economic climate of 2008 and 2009, we refinanced three facilities totalling £253m including £125m renewed in April 2009.

Whether it is building design or delivery, lease management or stable financing, putting in place the right resources is crucial for the effective and efficient execution of our strategy. We have the right resources, we employ the right people and we listen to the right advisers. We cultivate strong working relationships with all our external consultants. With each new project, these relationships evolve and strengthen. We are always receptive to new ideas, believing that it is essential to nurture, encourage and embrace the next generation of talent. Once we have forged new relationships, they often grow in tandem with each new project. Our portfolio is balanced in a multitude of ways and is characterised by a plethora of opportunities for development and value growth. Underpinning the whole of our operation is our stable and flexible approach to financing.

It is a combination of these resources and our robust strategy that has enabled us to weather the recent downturn so well delivering 82 lettings during 2008 and more than 100 lettings right across the portfolio during 2009.

Concentration on 17 London ‘villages’



Our strategic plan

The following section details our approach to each strategic aim together with the relevant key metrics and performance indicators

1

Sourcing interesting buildings with potential

Approach

We buy opportunistically. The headroom provided by our flexible financing approach and gearing levels allows us to do this. Our purchases are not limited to any one specific type of property but they typically share the common characteristics of being income-producing in their present state and with the potential for further enhancement. We have consistently demonstrated our ability to extract additional value from a range of different types of buildings. Acquisitions may take the form of portfolios, as has been the case in the past, or companies, as with London Merchant Securities (LMS) in 2007. However, whatever the purchase, our goal is always to source the right type of property at the right price.

Key metrics

Our acquisition of London Merchant Securities in 2007 doubled the size of our portfolio and provided us with a range of properties containing a versatile mix of opportunities for both the short and the long-term. As a result, and with the shortage of suitable properties in 2009, our acquisitions were focused on assets of strategic importance to our future development plans.

2

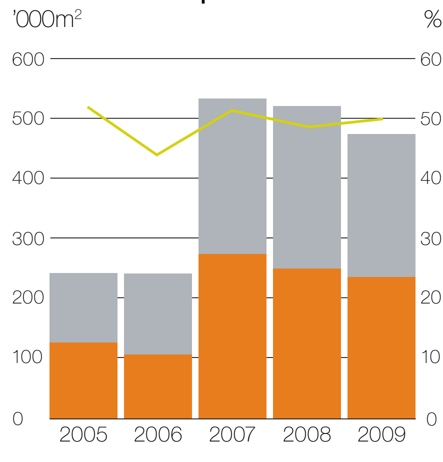
Optimal planning and creation of innovative design

Approach

We provide new office spaces with an emphasis on quality, environmentally friendly design and, crucially at all times, provide value for tenants. As the planning process is complex and often both protracted and frustrating, it is important to identify potential and undertake appraisals at an early stage in order to ensure an appropriate supply of schemes for the future. While this process progresses, maximum flexibility is maintained to enable us to deliver schemes to the market at the most appropriate time. Whether they are small refurbishments or large redevelopments, our aim is to deliver each scheme on time and within budget. Just prior to completion, we commence the marketing process to let the resulting space. This allows us to complete lettings as soon as possible after the completion of the scheme. For example, at the recently completed Charlotte Building, 84% of the space was let within five months of completion. Often, especially for larger developments, we have pre-let space which de-risks a project. This was the case at the Angel Building where 53% of the space is already let to Cancer Research UK for a project that will only complete in summer 2010.

Key metrics

Throughout the economic downturn, we have continued our schemes, incurring £91.5m and £73.0m of capital expenditure in 2009 and 2008 respectively, compared with £61.0m in 2007. Our portfolio continues to offer a significant level of opportunity for increases in value. Over 50% of space has been identified for either refurbishment, regeneration or redevelopment. When complete these activities will result in value increases as well as generating substantial additional space.



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

Key performance indicators

BREEAM rating

We require all developments in excess of 5,000m² to be assessed using the Building Research Establishment Environmental Assessment Method (BREEAM) and achieve a 'Very Good' rating or above.

	Completed	Rating
Qube	Q4 2007	Very Good
Arup Phase II	Q2 2008	Very Good (expected)
Charlotte Building	Q4 2009	Very Good (expected)
Arup Phase III	Q4 2009	Very Good (expected)

We are pleased that all of our recent completions have reached the 'Very Good' rating. This reflects our ongoing commitment to sustainable development. More of our initiatives in this regard are detailed in the sustainability section.

→ see page 38

3

Enterprising portfolio management

Approach
A reversionary rental profile with low passing rents is a key characteristic of our portfolio, providing prospects for income growth and value enhancement. We aim to capitalise on these opportunities and work with our tenants to exploit the potential to accommodate expansion, contraction and lease regears. This not only maintains good relationships with our tenants but also maximises rental income in our buildings and enhances capital values.

Key metrics
In order to maximise rental income and to minimise void space it is important that, in cases where we wish to retain income, our tenants do not exercise the breaks built into their leases and that new leases are signed at the end of their existing contracts.

Tenant retention

	Rental income exposure £m pa	Retention %	Re-let by year end %	Total income retention %
2009	**12.1**	**66**	**18**	**84**
2008	13.0	70	11	81

Where space is identified for refurbishment or redevelopment, we structure leases to expire or contain landlord breaks to coincide with these future plans. Of the 16% vacant at the year end, 4% relates to such circumstances. These figures demonstrate our ability to both retain tenants and act swiftly in order to ensure that any resultant vacant space is minimised.

Key performance indicators
Void management
Our aim is to minimise the space immediately available for letting and that this must not exceed 10% of the portfolio's estimated rental value.

	Performance %	Benchmark %
2009	**3.6**	**10**
2008	3.8	10

The available space had a rental value of £4.7m pa (2008: £6.4m pa) at the year end.

4

Financial stability

Approach
We have long believed in the need for flexible and uncomplicated financing. In the last few years, as many investors in real estate moved towards high leverage facilities, a trend fuelled by the rapid expansion in Commercial Mortgage Backed Securities (CMBS) structures, Derwent London has continued to maintain the long-term relationships built up with its core lenders. The other essential components of our financing strategy have been the management of a sustainable level of gearing based on interest cover and the overall group loan-to-value ratio. Our interest-rate hedging policy has been devised to provide adequate protection against unpredictable changes in short-term interest rates. → see page 34

We have been able to manage cashflow requirements to date without the need for relatively expensive and management intensive development loan facilities. This is due to our core discipline of balancing refurbishment and development activity against income generation. However, we will continue to keep all forms of debt finance under review.

The management of our level of gearing is also helped by our record of recycling capital by disposing of properties where we believe the growth prospects are limited or where buildings do not fit our balanced portfolio criteria.

We will continue to consider accessing other sources of finance periodically in order to ensure that the group is appropriately financed. This will ensure that we can move quickly when funds are required without taking undue financial risks.

Key metrics
Gearing

	Balance sheet %	Property %
2009	**62.2**	**36.4**
2008	71.2	39.7

The derivation of both these measures is shown on page 96 and they are defined on page 108.

Available resources

	Headroom £m	Immediately drawable £m	Unsecured properties £m
2009	**425**	**353**	**338**
2008	291	289	433

Disposals
Our ability to transact quickly in various market conditions is demonstrated by the £208.3m of property sold during 2009. The main disposals during the year were 13-17 Fitzroy Street to Arup for £59.4m and The Rotunda, Kingston-upon-Thames for £41.4m.

Key performance indicators
Profit and loss gearing
This figure demonstrates the group's ability to meet its interest obligations. It is considered to be the more important of the three gearing measures for the board to manage, particularly in respect of the ongoing refurbishment and redevelopment programme and the average lease profile.

As was identified in the 2008 annual report, 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. In accordance with this change, the benchmark has been revised to 200%.

	Performance %	Benchmark %
2009	**330**	**200**
2008	247	200

This measure is derived on page 96 and defined on page 108.

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

	Performance %	Benchmark %
2009	**96**	**95**
2008	97	95

A high level of collection was maintained during the year ranging from 95% to 97% (2008: 96% to 98%).

Objective
To achieve above average long-term returns

Result
Outperformance of all return measures

Key metrics

	Performance %	Benchmark %	Comments
Capital return			
2009	**-3.3**	**-5.4**	IPD Central London Offices Capital Growth Index.
2008	-22.1	-27.0	
Total shareholder return			
2009	**86.7**	**11.4**	FTSE All-Share Real Estate Investment Trust Index.
2008	-47.9	-46.6	

Key performance indicators

	Performance %	Benchmark %	Comments
Total return			
2009	**-2.7**	**-51.7**	The benchmark is an annualised calculation based on published information from the other major REIT companies.
2008	-30.6	-34.5	
To exceed the return achieved by the other major REIT companies			
Total property return			
2009	**4.3**	**-8.3**	The IPD provides the most commonly used benchmarks for the real estate sector.
2008	12.6	-4.2	
To exceed the annualised IPD All UK Property Index on a three-year rolling basis			
2009	**1.7**	**0.9**	
2008	-18.9	-23.5	
To exceed the IPD Central London Offices Index on an annual basis			

A list of definitions is provided on page 108.

Our tenants

We strive to be the landlord of choice within our marketplace

From the start of our relationship with our tenants, we work hard to understand their requirements. Principal-to-principal negotiations are carried out as soon as an introduction is made. This enables us to meet each potential tenant early in the process, which leads to deeper mutual understanding and a quicker transaction. If the letting is part of a project, we take account of the tenant's views in the build process, where possible, working together to help realise their vision for their space. Whether the tenant is upsizing or downsizing we work closely with them to ensure that we meet their future needs.

We are helping to change the face of the West End with the acceptance by tenants of new and improving locations. We appeal to tenants in the middle market, where rental levels are in the region of £30–£50 per sq ft (£325 – £540 per m^2). Occupiers have a desire to stay in the West End at affordable rents without compromising quality and we have helped numerous tenants in recent years to achieve this. Examples include:

Grey Advertising
from Noho to Hatton Garden

Burberry
from St. James's to Victoria

Rio Tinto
from St. James's to Paddington

Cancer Research UK
from Holborn to Islington

We initiated a tenant forum in 2009, which was attended by tenants from across the portfolio together with a number of our consultants. The event enabled tenants to share their views on a wide range of issues from service charge, via post-building completion reviews, to sustainability topics. Following the success of this venture, we are rolling out a series of quarterly forums throughout 2010, which will reach a wider audience.

We also hold regular engineering forums at a number of our larger buildings. These enable us to discuss with tenants whether a particular property can be operated more efficiently. In addition, there are tenant-focused interactive websites at 43% of our managed properties with a further 15% planned for 2010. Our property management function, which was previously mostly outsourced, was brought wholly in-house during 2009, in order to get even closer to the asset management function of our properties and our tenants. All these initiatives are part of our strategy for giving tenants the freedom to focus on their business rather than worrying about their premises.

During 2009, we introduced standardised 'green' leases. These 'plain English' documents contain clear and simple revised terms covering issues such as service charges, uninsured risk and tenant protection. Our new leases also include clauses to formalise the intention and co-operation of both parties to reduce energy use and improve recycling. The introduction of these new lease documents has led to a substantial reduction in transaction time and costs for both the tenant and ourselves.

→ see page 38

Arup
Current rental income: £7.3m pa

"As a pre-existing tenant in the middle of a major redevelopment initiative with our landlord, the transition to the new Derwent London entity was much smoother than we could have hoped. The plans were well advanced and Derwent did not look to disturb the status quo. In practice, we found them forward looking and interested in our view of the building as a tenant and as a place for our occupation over the next decades. They preach partnership and that has been the practice. We have worked with Derwent as landlords on a number of fronts related to our estate. We have sold to them and bought from them; we have leased new space from them and released space back to them as our own business demands have changed and the redevelopment project completed. Over this relatively short period we have developed a partnering arrangement which allows us to discuss issues openly and derive mutual benefit. We have never had a problem we have not been able to resolve with them by straightforward conversation and I would hope they feel the same. Compared to some of our previous experiences, it's like stepping into the light!"

Cancer Research UK
Angel Building 13,000m^2 pre-let

"We selected the Angel Building because it is an efficient and welcoming building in an amenity-rich area. It supports our brand and represents value for our supporters. Derwent London's reputation provided added comfort that the building would be delivered on time. Our experience of working with Derwent London has been a very positive one. They have been open, honest and professional throughout all our dealings with them. They have responded with sensitivity and flexibility to the needs of the charity."

Unanimis
One of London's largest digital advertising companies took 1,200m^2 at the Charlotte Building for £0.6m pa

"Unanimis has been a tenant of Derwent London for several years. This latest deal is evidence of our strong relationship and is testament to Derwent's commitment to providing quality space to meet the needs of a cutting-edge communications group. We are a loud, busy company but this gives us the space and calm we need to balance that. The building is in a genuinely peaceful part of central London."

Building value

Our over-riding aim is to deliver space that maximises quality as well as quantity. We want to provide enjoyable and efficient space for our tenants – offices that are bright and comfortable, cost-effective in use and energy efficient.

We have always strived to do better and think smarter, learning from the past, looking to be progressive and to challenge conventions. Over the years we've developed better ways of allowing design to evolve. Each new working relationship is unique. We do not commission practices to reproduce archetypal work: we are willing to be revolutionary and often find that the resulting collaboration produces more exciting and innovative architecture. By cultivating relationships with smaller architectural, design and engineering practices – whose skill, tenacity and vision we value just as much as those of more established firms – we are able to work closely throughout a project, and develop a strong creative understanding.

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

The Johnson Building EC1

From 8,700m²
To 15,900m²
83%↑

Utilising a previous courtyard to create critical mass for a mixed-use redevelopment scheme, we used a generous approach to space standards and a parallel commitment to sustainable design. Daylight is brought into the building through double height spaces and mezzanines while a new private courtyard provides tenants with a peaceful exterior space.

Arup Phases II & III W1

From 9,300m²
To 13,700m²
47%↑

The demolition of two redundant 1960s buildings and the construction of new offices at 8 Fitzroy Street formed phases II and III of a development agreement between ourselves and Arup. The result is a high specification, superior quality office building of 13,700m² occupied by Arup as headquarters for their global engineering consultancy service. This striking coloured glass-clad building provides seven levels of offices around a central atrium, along with associated meeting rooms, a reception, café and library, plus conference and exhibition space.

Angel Building:

£50 per sq ft

saving on refurbished space by retaining existing frame

Angel Building EC1

From 15,100m^2
To 24,400m^2 62%↑

The Angel Building redesign is set to bring a much-needed transformation to the area directly south of Angel station. By summer 2010, the building will boast a sleek new glass façade. The entrance to the contemporary urban office space is a substantial 1,200m^2 reception area. It's a radical change from the building's previous incarnation, which was modern in its time; a concrete structure housing 15,100m^2 of office space built around an open internal courtyard. The building was set back from the roadside, in anticipation of a road-widening scheme that never materialised. A tree-lined area filled the gap between the building and the pavement but had become a repository for shopping trolleys, beer cans and fast food packaging.

Our architectural vision for this part of Islington was to reconnect the building with the street. We saw the opportunity to gain substantially more space that previously wasn't utilised. The regeneration strategy is focused on re-using the existing building structure to fulfil its potential, with the existing tired skin being removed and the floor plates increased.

We are introducing amenities, including a restaurant and lounge area, that will prove attractive and useful for occupiers. The reception area is designed to be a hub for the entire building, rather than merely a corridor to walk through on the way to a meeting.

The historically problematic public space will be re-landscaped, with several of the existing mature trees remaining and new trees planted. This new public realm will provide opportunities for outside restaurant and café dining and, most importantly, informal use by the tenants. We hope that these newly landscaped areas and the building as a whole will help to breathe fresh life into this corner of north Clerkenwell.

Tea Building E1

Originally a Lipton's Tea warehouse, the interior was stripped back to its bare essentials to emphasise the building's industrial character transforming it into 23,000m^2 of exciting office space that now plays host to a variety of creative businesses as well as the Shoreditch House club and boutique hotel. The building has become a focal point for the regeneration of the area and has encouraged other businesses to follow suit.

Qube W1

Replacing a 1960s office building that had reached the end of its useful life, the Qube development which completed at the end of 2007 has transformed the area around Tottenham Court Road and Whitfield Street in the heart of our Fitzrovia holdings. Comprising 9,300m^2 of office space, six retail units and a prestigious private apartment block, this iconic glass building with a large central atrium and generous reception (incorporating stunning artwork by renowned artists Ian Davenport and David Tremlett) provides a sense of space and a level of specification unrivalled in the area.

Building value
(continued)

Tenants are increasingly citing sustainability as a key factor in rental discussions

The vast majority of our schemes contain inherent sustainability in terms of their adaptive re-use of existing structures

Tenants are increasingly citing sustainability as a key factor in rental discussions, while investors, bound by their own corporate social responsibility policies, are asking searching questions about carbon footprint and a building's ability to adapt to climate change. We have always tried to stay one step ahead and energy use and sustainability are in the forefront of our minds when we consider our schemes. In 2003, we completed the Davidson Building in Covent Garden, one of the first speculative properties in London to use a displacement cooling/heating system employing under-floor air and exposed thermal mass as a means of reducing air conditioning energy use. Fast on its heels came the Johnson Building in Hatton Garden which features a similar low energy approach. This building introduced DALI lighting into our portfolio; microprocessor technology which switches lights between full, dimmed and off mode in response to both natural lighting conditions and the movement of people. These systems have also been installed in our schemes at Horseferry House, the Charlotte Building and the Angel Building. This approach not only appeals to the tenants' green credentials but also, practically, reduces the running costs of the building.

Historically, we have primarily relied upon the regeneration of existing buildings rather than outright redevelopment to achieve our objectives. The vast majority of our larger schemes contain inherent sustainability in terms of their adaptive re-use of existing structures. This approach saves management time as well as reducing the planning process. We also save on new materials by re-using instead of demolishing. For example, by retaining the existing frame at the Angel Building, we were able to generate a cost saving of approximately £50 per sq ft for the refurbished space.

Additional information about our sustainable activity is detailed in the sustainability section.
→ see page 38

Over the past 10 years, capital expenditure totalled over £400m and, excluding Arup phases II & III and Qube, which we inherited from the acquisition of LMS, only 13% of our capital expenditure was incurred on new-build development. The remainder was invested in more than 200 schemes ranging from large refurbishments such as Horseferry House, to adding new floors or upgrades of space.

Horseferry House SW1

A magnificent nine-storey brick building with large internal light wells, just off Millbank in Victoria occupied by a government department and featuring outdated office accommodation. A major refurbishment was undertaken to relocate the lift cores, toilets and escape stairs into the now-enclosed lightwells, with a new rooftop extension, creating superior and modern space. New fenestration, a full building 'clean and repair' and reconfigured entrances improved street presence and repositioned the building in the market. The entire transformed building was pre-let to Burberry as the world-renowned fashion retailer's new global headquarters office and showroom.

Greencoat and Gordon House SW1

We continually review our buildings and, where appropriate, refurbish and upgrade space on a phased basis over time. Greencoat and Gordon House in Victoria is a typical example. Acquired in 1995 for £10m, this building produced rental income of £1.1m pa at the time of purchase. We have since added space by completing two roof extensions and converting loading bays and storage areas into office space. In addition, we have upgraded various office suites and transformed the reception area; what was previously an understated and underutilised space now features colour, texture and striking contemporary furniture. The upgraded, streamlined and modernised reception is a positive and welcoming introduction to the building.

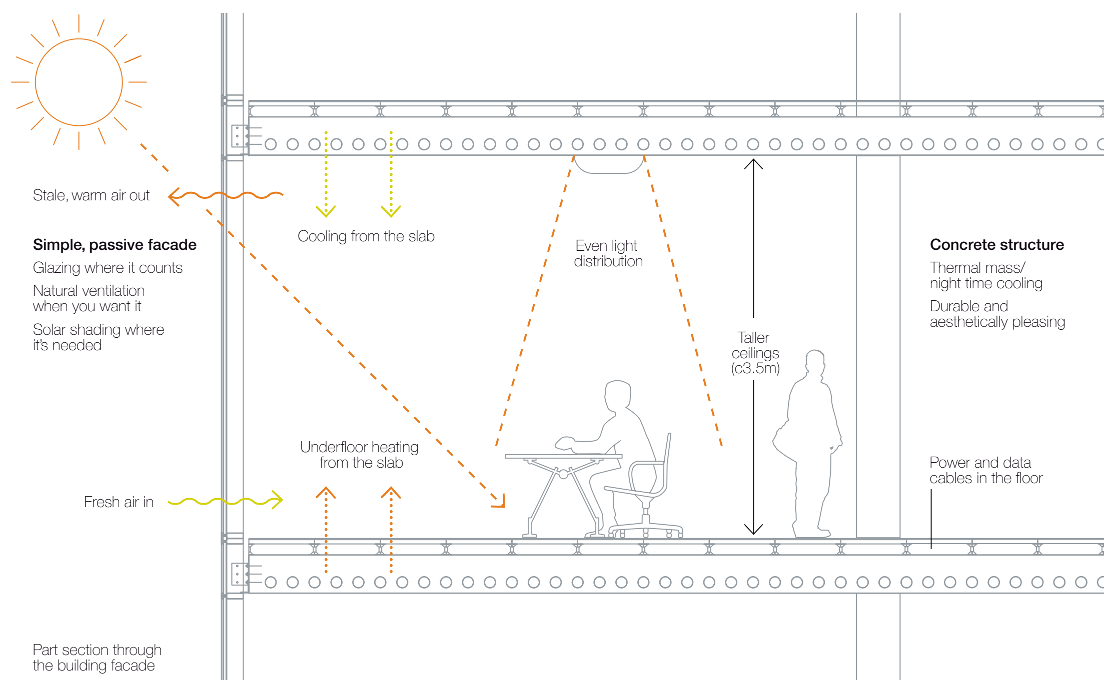
In total, 12 schemes have been carried out contributing to a rental value of over £4m pa and a property value in excess of £50m.

Our most recent scheme was the refurbishment of the top floors of Gordon House, a refined red-brick building, and the addition of a rooftop extension to create a new floor. Now complete, this project appears at first glance to be a signature Derwent London space – a tasteful, minimal, white-walled environment with generously proportioned, timber-framed windows overlooking an historic part of the capital. But the real story lies in its construction, which points the way to a greener future. The new rooftop extension is built out of structural timber, while the prefabricated walls are also structural and help to support the ceiling, meaning fewer columns and, therefore, less steel. Steel is particularly environmentally unfriendly, because it is energy-intensive to produce. This construction method was chosen because it was fast as well as green.

We continually review our buildings and, where appropriate, refurbish and upgrade space on a phased basis over time

Looking forward

White Collar Factory



We are pursuing a fresh idea for office space: a new type of building that learns from the best warehouses and factories – but one that is designed for the 21st century office worker rather than the 20th century blue-collar worker. We call it the 'White Collar Factory'. The quality we admire and pursue is one of simplicity, generosity, volume and light: a particular proven spatial characteristic that we have discovered in so many buildings originally constructed for industrial production.

Typically, the White Collar Factory is an office building that has big, flexible floor plates, large opening windows, generous volumes and robust concrete construction. It is light, open and connected because its dimensions are being defined by the potential of natural light and ventilation. It is smart because it is simple and does not rely on the air conditioning and other technological add-ons that too often confuse choice with excess. That said, it uses the physics of thermal mass and cool water cast pipes to ensure that it is cool in summer and warm in winter. Its generous volumes also ensure that it is future-proofed by allowing tenants to add any extra services they believe they might require.

The White Collar Factory offers a rich mix: a 'city sandwich' packed with different users whilst fulfilling that most sensible maxim of enduring architectural quality – 'long-life, loose fit'.

The logic of the White Collar Factory has already influenced our thinking as we look to extend and re-invent Hampstead Road and embark on an ambitious mix of large and small office spaces at our City Road Estate.

132-142 Hampstead Road W1 (CGI)

80 Charlotte Street W1

Fitzrovia: approximately 30 buildings covering over one million sq ft

Fitzrovia

Our Fitzrovia portfolio consists of approximately 30 buildings covering over one million sq ft ranging from large, brand new office blocks to small older pubs. Set in quieter streets full of history and character, Fitzrovia is enjoying a renaissance and we are helping to shape the future thanks to exciting new architecture such as the Charlotte Building, Qube and Arup's headquarters.

This was a core holding of London Merchant Securities and we are now evolving a strategy for the next few years. Many of the buildings can simply be refurbished – a process that we have already started with small refurbishment schemes completed at 43 and 45 Whitfield Street and 75 Wells Street.

Make's design for the 80 Charlotte Street block aims to retain and rationalise the majority of the buildings, breathing new life into the existing spaces and creating a positive and cohesive new identity with a strong sense of place.

The retained sections of the buildings will be refurbished internally and, together with new additional floors, provide a range of flexible and highly efficient office spaces to satisfy the requirements of the modern occupier. In addition, a self-contained residential element will be introduced as well as further floors at roof level to provide fantastic skyline offices, set back from the street frontage with private gardens.

Retaining a large amount of the existing building is environmentally and socially sustainable, reducing the quality of materials and energy required and minimising pollution and disruption for local residents and businesses. Long-term sustainability strategies will be developed to incorporate opening windows, natural ventilation and heat recovery systems.

The development will harmonise with its setting in Fitzrovia; enhancing activity and interest at street level by offering an enriched mix of uses across all of the site's frontages and offering the local community a new area of public realm.

Fitzrovia Partnership

The Fitzrovia Partnership is a business-led initiative bringing together local businesses to add value and deliver a tangible improvement to the management of Fitzrovia. It seeks:

- to embrace business and work with local amenity groups and the statutory authorities to help preserve and enhance a vibrant commercial and residential district;
- to introduce itself to a wider audience and attract members, the aim being to involve the business community in a shared vision of maintaining Fitzrovia as a location of choice; and
- to deliver pro-active business management, improved standards, a destination of choice for living and visiting, a sense of place and return on investment.

Derwent London is leading this initiative and has been formally joined on the partnership's board by Arup, The Doctors Laboratory, Make, City of London and Camden council.

Its integrated management plan incorporates eight key components, each of which aims to deliver added value activities:

- clean;
- safe;
- promoted;
- accessible;
- friendly;
- identity;
- information; and
- communication.

Examples of these activities are to:

- focus on enhancing the quality of the street environment in partnership with Camden council and Transport for London;
- introduce ambassadors to provide customer service to businesses, workers and residents alike and help to reduce crime in partnership with the police;
- enhance connectivity with neighbouring areas as well as within Fitzrovia;
- help upgrade, in partnership with Camden council, the quality of the public realm by improving the range of street furniture, trees and landscaping;
- embrace more businesses and focus on promoting the area as a destination of choice for business;
- help create an environment conducive to quality retailing to support the business and residential community and add value to the retail hub of Tottenham Court Road; and
- increase the dining and eating offer to add value to the vibrancy of Charlotte Street and its surroundings.

→ see page 41

Performance

We consider that we have succeeded when our projects have not only produced distinctive properties but also helped to influence the communities in which they are located.

Property review
Valuation

Hyde Park Corner Estate SW1

Village
Belgravia

Type
Office

Value
>£75m

Size
15,700m²

Tenants
Sir Robert McAlpine; Spectron plc; Jupiter Investment; Lonmin plc; Davis Service Group plc

Previous page:
The Angel Building, EC1

There was a clear change in sentiment in the commercial property investment market during 2009 as the economic environment showed signs of improvement. During the first half of the year, capital values continued the pattern of decline seen in 2008 as yields moved out and rental values weakened. However, in the second half, with improved investor confidence, investment turnover picked up substantially. Activity was initially led by overseas investors and then, towards the end of the year, UK investors became more active, particularly the domestic financial institutions. The attraction for investors was the relatively high level of income returns and the perceived value offered by the commercial property sector after the substantial capital value declines from the market peak in mid-2007. This increased demand, coupled with a lack of good quality property, led to capital value growth from yield compression in the second half of 2009.

The group's investment portfolio was valued at £1.92bn at 31st December 2009. There was a valuation deficit of £72.5m for the year, before lease incentive adjustments of £8.6m, giving a total movement of £81.1m. Whilst the underlying valuation movement over the year was a 3.3% decline, this was an improvement on the 22.1% fall in 2008 and was an outperformance against the IPD Central London Offices Capital Growth Index, which declined by 5.4% in 2009. Significantly, the valuation decline of 12.3% in the first half was substantially reversed in the second half with a 9.8% increase which was dominated by yield compression. As a result, the revaluation surplus for the second half of 2009 was £177.8m.

By location, our West End properties decreased by 2.8% over the year. Again there was a reversal of performance, from a 12.7% decline in the first half to a 10.9% gain in the second half. In our City borders properties, 21% of the portfolio, values fell 5.3% over the year. The balance of the portfolio, now all in Scotland and representing just 5% of the total portfolio value, declined by 2.5% in 2009.

Within the investment portfolio, the development properties, principally Arup Phase III, the Angel Building and the Charlotte Building, were valued at £167.8m at the year end and showed a decrease of £4.0m or 2.3% over the year. After a decrease of 17.8% in the first half, there was a 14% valuation increase in the second half. Both Arup Phase III and the Charlotte Building were completed towards the end of the year and this drove the valuation improvement.

The portfolio's estimated rental value decreased by 11.4% in the first half of the year and 2.9% in the second, giving an overall annual decline of 14.0%. In 2008, the annual decline was 3.4%.

The portfolio's initial yield, based upon the annualised contracted rental income and after rent free periods, was 6.0% at 31st December 2009, a similar level to last year. This would rise to 6.2% after letting the vacant available space and to 6.7% upon full reversion. The portfolio's true equivalent yield was 6.4% at the year end, a decrease from both the 7.1% at the start of the year and the 7.3% at the half year.

The group's total property return for 2009 was 1.7%, a significant improvement on the -18.9% in 2008. This was an outperformance against our key performance indicator (KPI) benchmark, the IPD Central London Offices Index, which was 0.9%. There was also an outperformance against our KPI three-year measure to exceed the annualised IPD All UK Property Index on a three-year rolling basis. The portfolio performance under this measure was 4.3% pa compared to the benchmark of -8.3% pa.

Portfolio yields

Property review

Portfolio management

Charlotte Building

84%

let within five months

101

lettings,

£9.3m

pa rental income

The appeal of our well-designed office space remained strong throughout the year, despite the challenging letting market environment. We successfully completed a total of 101 lettings with a floor area of 31,500m² and a combined rental income of £9.3m pa. Of this, £6.6m pa was from space that was not income-producing at the start of 2009. Overall, lettings were concluded at 14.7% below the valuers' estimated rental values at the start of the year. However, a number of transactions were short-term lettings at reduced rents, which were structured to retain future development flexibility. Excluding these, lettings were 10.1% below valuers' estimates. As a rental comparison, the IPD Central London Offices Index showed a rental value decline of nearly 20% for the year.

We began to see signs of rental stabilisation during the second half of 2009 with 55% of our activity by income over this period at or above the June rental value estimates.

The year began with the letting of the remaining office space at the 10,000m² **Qube** building in Fitzrovia. EDF, one of Europe's largest energy companies, took 2,900m² at a rent of £1.5m pa, while ScanSafe, a subsidiary of technology giant Cisco Systems, took 600m² at £0.3m pa. Letting activity continued, leading to the conclusion of our 100th letting for the year in December. This came with the arrival of Innocent Drinks, a leading fruit smoothie company, at **Portobello Dock**, our urban regeneration development spanning the Grand Union Canal in west London, which was recently shortlisted for the World Architecture Festival Awards.

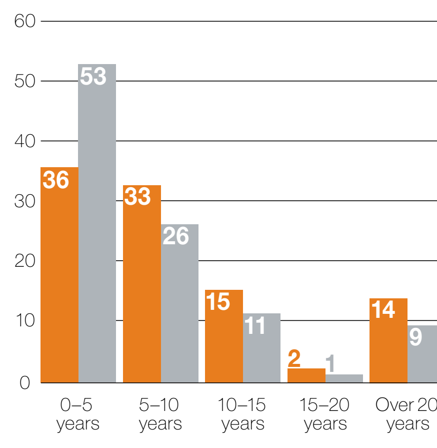
On our larger projects, we completed the elegant 4,400m² new-build **Charlotte Building**, Noho, in October. Letting activity in this sophisticated building, designed by award-winning architects Lifschutz Davidson Sandilands, was swift and, by the year end, Unanimis, one of London's largest digital advertising networks, and Icon Entertainment had taken 1,200m² and 600m², respectively, at a combined annual rent of £0.9m.

Our smaller refurbishments also proved popular with tenants. At the **Tea Building**, opposite the new Shoreditch High Street railway station, which is scheduled to open in June 2010, we reconfigured a number of units and attracted a range of dynamic occupiers including Oakley, a high-fashion sunglasses company, and the private members' club, Soho House. Elsewhere, we refurbished the entire 1,100m² building at **45-51 Whitfield Street**, Fitzrovia, and pre-let it to Target Media, one of the fastest growing independent media agencies in the UK.

Tenant demand has remained buoyant since the year end. Two further lettings have been signed at the **Charlotte Building**: Converse (a division of Nike) and Brandopus have leased 1,400m² and 500m², respectively, at a total rent of £0.9m pa. A single floor remains available and there is strong interest in this space. To date, we have concluded 13 lettings in 2010 at a rent of £1.4m pa with a floorspace of 4,300m². Additionally, over 4,000m² of space is under offer at a rent of approximately £1.1m pa.

Profile of rental income expiry

% of rental income[1]



No lease breaks exercised
Lease breaks exercised at first opportunity

[1] Based upon contracted net rental income of £114.9m pa

Property review

Portfolio management
(continued)

41

rent reviews,

£1.2m

pa additional income

The low rental characteristics of our portfolio enabled us to capture important reversion through rent reviews and lease renewals. Over the year, 41 rent reviews were settled, at a 15% uplift, adding £1.2m pa to the group's contracted rent roll. Lease renewals were also profitable, with 38 transactions increasing the annual income from £1.5m to £1.8m – an 18% uplift.

At the start of 2009, just under 10% of the portfolio's annual contracted rental income was subject to lease expiries or break options during the year. We enjoyed a high retention rate thanks to our intensive asset management: in total, 66% of this income was retained and 18% re-let prior to the year end. Of the balance, 24% has subsequently been let or is under offer.

Continuing low vacancy rate

Minimising our voids was a key asset management target during the year. This was achieved, with the vacancy rate remaining low, and relatively unchanged, throughout 2009. The group's vacancy rate by rental value, measured as space immediately available for occupation, started the year at 3.8%, rose to 4.2% in the spring before declining to 3.6% by the year end.

Average unexpired lease length
Years

Covent Garden Estate WC2

Village
Covent Garden

Type
Office/Retail/ Restaurant

Value
£25m – £50m

Size
6,700 m²

Tenants
F&C Asset Management; Moss Bros Group plc; Carluccio's; Hackett; Beale & Co Solicitors

This reduction occurred even after the completion of the Charlotte Building, which was reclassified from 'projects' to 'available space'. By floor area, the group's year end vacancy rate fell from 4.0% to 3.8% over the year, significantly lower than the CBRE central London year end rate of 7.2%, or 6.8% for the West End. Looking ahead to the new financial year, the completion of the highly efficient, AHMM-designed Angel Building during the summer of 2010 could potentially increase the vacancy rate to 6.8% by rental income or 6.2% by floor area.

Income collection and tenant monitoring was robust during 2009. Rent collected within 14 days of the quarter day averaged 96% over the year, a similar level to 2008 and a strong performance in the context of the economic climate. This was above our key performance indicator target of 95%.

Tenant defaults remained low, with only 13 tenants going into administration during the year.

Portfolio statistics and performance

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance £m	Total floor area m²	Available floor area m²	Project floor area[2] m²
West End							
Central	1,299.1	68	(0.6)	(15.6)	260,100	6,200	7,700
Outer	121.7	6	(20.8)	(32.0)	53,700	2,000	1,200
	1,420.8	74	(2.8)	(47.6)	313,800	8,200	8,900
City							
Outer	405.5	21	(5.3)	(22.5)	125,100	5,200	2,900
Central London	1,826.3	95	(3.3)	(70.1)	438,900	13,400	11,800
Provincial	92.1	5	(2.5)	(2.4)	36,700	4,700	100
Total portfolio 2009[4]	**1,918.4**	**100**	**(3.3)**	**(72.5)**	**475,600**	**18,100**	**11,900**
2008	2,108.0	100	(22.1)	(597.1)	520,400	20,700	21,200

[1] Properties held throughout the year
[2] Excludes Angel project as the building was income-producing at the year end

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[3] Years
West End						
Central	73.0	283	5.1	3.6	81.7	9.1
Outer	7.5	140	0.6	5.4	13.5	2.5
	80.5	258	5.7	9.0	95.2	8.5
City						
Outer	29.2	235	1.5	(0.6)	30.1	5.5
Central London	109.7	252	7.2	8.4	125.3	7.7
Provincial	5.2	142	0.7	–	5.9	7.1
Total portfolio 2009[4]	**114.9**	**243**	**7.9**	**8.4**	**131.2**	**7.7**
2008	126.4	266	14.2	27.2	167.8	8.3

[3] Lease length weighted by rental income and assuming tenants break at first opportunity
[4] See pages 102 and 103 for a list of principal properties

Portfolio yields

	Core rental income per annum £m	Angel Building rental income per annum £m	Total rental income per annum £m	Yield[5] %
Annualised contracted rental income, net of ground rents[6]	110.7	4.2	114.9	6.0
Letting 18,100m² available floor area	4.7	–	4.7	6.2
Completion and letting 11,900m² of project floor area	3.2	–	3.2	6.4
Angel additional rental income upon letting the development	–	5.7	5.7	6.6
Anticipated rent review and lease renewal reversions	2.7	–	2.7	6.7
Portfolio reversion			16.3	
Potential portfolio rental value	121.3	9.9	131.2	

[5] Yield based upon the year end valuation and adjusted for costs to complete commenced projects
[6] Includes rental income from pre-lets

Property review

Projects and investment activity

Over 22,000m^2 of space completed during the year

Charlotte Building 17 Gresse Street W1

Village
Noho

Type
Office

Value
£25m – £50m

Size
4,400m^2

Tenants
Converse; Unanimis; Icon Entertainment; Brandopus

Projects

We completed two major projects during the year:

Arup Phase III, 8 Fitzroy Street, Fitzrovia
This 7,900m^2 office building, designed by Sheppard Robson around a full-height open atrium and located in the heart of our Fitzrovia village, was completed in December. It is the final phase of our Arup pre-let. Phases II and III now form a single seven-storey building of 13,700m^2 that is let on a 25-year lease, with no breaks, at a rent of £6.2m pa, representing £450 per m^2 (£42 per sq ft).

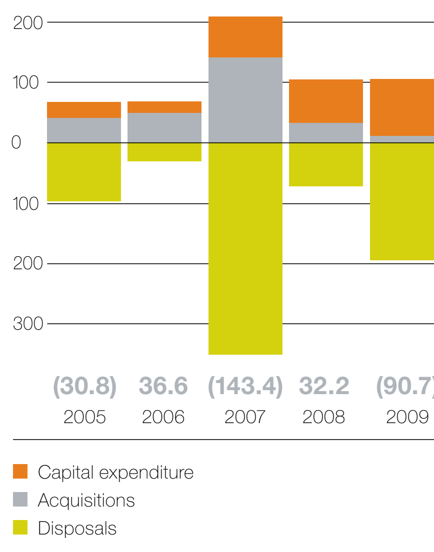
Charlotte Building, 17 Gresse Street, Noho
This elegant 4,400m^2 office building was completed in October and is now 84% let.

Following these completions, we are now concentrating on the delivery of the 24,400m^2 **Angel Building** development, our largest project to date. This six-storey office and retail scheme is due to be completed in the summer of 2010 and we are confident that this will benefit our portfolio. Cancer Research UK, one of the country's leading charities, has already chosen the Angel Building as its new headquarters. They have pre-let 53% of the space at a rent of £5.6m pa.

Capital expenditure on the above projects totalled £63.3m during the year. A further £32.3m is budgeted to complete the Angel Building.

In addition, we continued to be active throughout the portfolio on a number of smaller schemes. Over 10,000m^2 was completed during the year and at the year end we were on-site with five such projects totalling 4,200m^2 with a potential annual rental value of £1.3m. Just over half of this floorspace has been pre-let at an income of £0.8m pa. These projects include a 26-bedroom boutique hotel at the **Tea Building**, pre-let to Soho House and 600m^2 of offices at **43 Whitfield Street,** pre-let to Feilden Clegg Bradley, architects. The total cost of these projects is £9.3m, with £3.7m yet to be incurred.

Net investment
£m



To take full advantage of the improved tenant demand, we are commencing more than 18,000m^2 of refurbishments during 2010. These will have a total capital expenditure of approximately £37m. The rental value on completion is estimated at £6.5m pa, significantly more than the year end income from these properties of £3.5m. In particular, we are about to begin the 3,900m^2 refurbishment of **Victory House** in Fitzrovia.

As part of our development programme, we aim to commence a 7,100m^2 office building at **63 Clerkenwell Road** early next year. The start of this project is subject to the satisfactory outcome of a planning appeal decision in May as our initial application was refused, despite having recommendation for approval from the borough's planning officer. It would involve £28m of capital expenditure and deliver a striking, high-quality building in Clerkenwell.

A strong pipeline of projects

Future capital expenditure:

c£175m

on identified schemes

1 Oliver's Yard EC2

Village
Old Street

Type
Office

Value
£50m–£75m

Size
17,200m²

Tenants
Telecitygroup; Sage Publications; Morningstar; Skidmore, Owings & Merrill

We hold five significant planning consents, which ultimately could deliver 74,400m² of new space – an uplift of 171% from the current floorspace. Our City Road Estate is at the forefront of these plans. Here, we are in the process of redesigning the scheme to offer 27,400m² of predominantly office space. We anticipate submitting a revised planning application later this year. While we continue to advance plans on all our consented schemes, we are ensuring that the existing properties, which produce £3.7m pa, remain income producing.

In addition, we are continuing to work on a number of exciting appraisal studies that have the potential to achieve major floorspace gains. Our most advanced work is at **132-142 Hampstead Road,** Euston, where we have innovative proposals for a new concept of office space. This approach is centred around the design of low energy, user friendly offices that use the building's volume and structure to aid the efficient control of the working environment. It will also provide the occupier greater flexibility to tailor the space to their specific requirements. We have coined this concept the 'White Collar Factory' → see page 22 and at Hampstead Road we are finalising a planning application to provide 26,000m² of such space. Subject to planning approval, we are looking to commence this major refurbishment and extension in the second half of 2011, when the existing tenancies expire.

We are also progressing the next major regeneration project on our Fitzrovia Estate. At **80 Charlotte Street,** we obtain vacant possession on the 18,600m² buildings in 2013. One option is a 27,900m² office scheme that would regenerate and extend the existing buildings.

Finally, we continue to advance our long-term development plans at **1 Oxford Street** at the junction of Charing Cross Road. This important West End site, at the eastern end of Oxford Street, is the location of a major transport interchange. Our interests were compulsorily purchased during the year; however, we have an option to buy back the site upon completion of the London Underground and Crossrail station works. These are anticipated to complete in or around 2016. We are working closely with both organisations on a planning application for a mixed-use development of approximately 19,000m², which is likely to be submitted this summer.

Investment activity

It was inevitable that the first half of 2009 would see limited investment turnover, due to market nervousness and ongoing constraints in the debt market – a key source of finance for the commercial property market. During this period, we made £39.1m of disposals after costs. However, we took advantage of improving investor sentiment in the second half of the year with £169.2m of disposals.

During the year, 50 properties, with a floor area of 47,200m² and which consisted of mature or non-core smaller properties as well as three compulsorily purchased properties at Charing Cross Road, were sold for £208.3m. The properties had an annual income of £14.2m and reflected a disposal yield of 6.8%. Excluding the compulsorily purchased properties where the final sale price is subject to a formal valuation process, disposals were 4.4% below the December 2008 valuation. Including these properties, the figure was 7.4%. The two largest transactions were:

- **Arup Phase I**, 13 Fitzroy Street, Fitzrovia
  In July, we sold this 8,400m² eight-storey office building to Arup, the tenant, for £59.4m after costs, reflecting a net initial yield of 7.0%. This was a mature property that had been refurbished and let on a lease expiring in 2023 at a rent of £4.5m pa; and
- **The Rotunda**, Kingston-upon-Thames
  This 15,700m² leisure complex was sold in November for £41.4m after costs, reflecting a net initial yield of 7.4%.

Although we made no significant acquisitions during the year, we did acquire certain small buildings that will facilitate a number of future redevelopment opportunities.

While the supply of potential acquisitions has been limited over the last few months, we are now seeing more properties appear on the market. The group has £425m of committed unutilised debt facilities so we are strongly positioned to take advantage of any acquisition opportunities that may arise in the future.

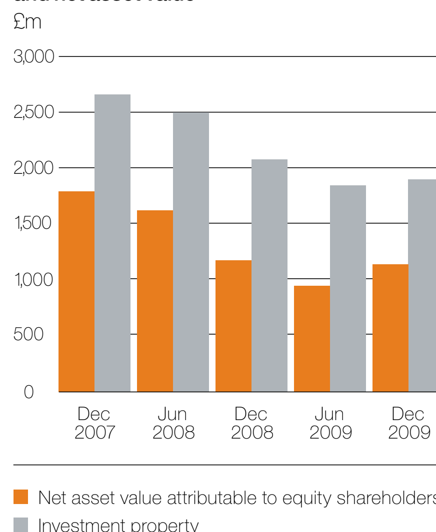
Finance review

Results

Net asset value per share

As reported in both the chairman's statement and the property review, following a steep decline in central London property values in the first half of 2009, there was a substantial recovery during the second half of the year. As a result, the group's adjusted net asset value per share attributable to ordinary shareholders as at 31st December 2009 of 1,168p was only 4.7% lower than the prior year; the comparative figure as at 31st December 2008 was 1,226p which, by 30th June 2009, had fallen to 993p. The equivalent adjusted net asset value at 31st December 2009 was £1,179m against £1,236m in December 2008 and £1,001m at the 2009 half year. A full analysis of the trends within the property portfolio can be found in the property review but the overall revaluation deficit on investment properties was relatively modest at £81.1m after a decline of £258.9m in the first half of 2009 and compares with the sizeable decrease of £602.1m for the whole of 2008.

Movement in investment property and net asset value
£m



Reconciliation of group net asset value to adjusted net asset value:

	2009 £m	2008 £m
Net assets as reported	**1,163.9**	1,215.0
Deferred tax on revaluation surplus	**8.1**	8.9
Fair value of derivatives	**23.0**	26.9
Unamortised fair value adjustment to secured bonds	**20.2**	20.9
Minority interests	**(36.6)**	(35.9)
Adjusted net assets attributable to equity shareholders	**1,178.6**	1,235.8

Net property income movement from 2008:

	£m	£m
2008 gross property income	119.0	
Effect of acquisitions	0.5	
Disposals	(4.9)	
Lettings and rent reviews	13.7	
Voids	(4.5)	
2009 gross property income		**123.8**
2008 total property outgoings	(24.9)	
Rates credit in 2009	2.8	
Reduced legal and letting fees	1.3	
Cost of lease surrender in 2008	8.3	
Trading property writedown in 2008	2.0	
2009 property outgoings		**(10.5)**
2009 other income		**1.5**
2009 net property income		**114.8**

Group income statement

Putting property valuation movements to one side, 2009 was a very strong year for group recurring profit both before and after tax due principally to robust underlying net property income, low net finance costs and the utilisation of previously unrecognised tax losses.

Gross property income increased to £123.8m for the year ended 31st December 2009 as compared to £119.0m for the previous year. The strong letting performances during 2008 and 2009 were partially offset by lower recurring rental income following significant investment property sales towards the end of the year. The impact of these sales will be reflected more in the recurring earnings for 2010; properties sold in 2009 produced annualised gross rental income of £14.2m.

Net property income, after allowing for irrecoverable expenditure and ground rents, increased strongly to £114.8m in 2009 from £95.5m in 2008; the latter was adversely affected by a reverse surrender premium of £8.3m and a provision of £2.0m against the carrying value of trading properties. Net property income in 2009 benefited from a reduction in letting and legal costs of £1.3m compared to the previous year which also included the cost of the Horseferry House lease. In addition, following a thorough review of commercial rates payable across the portfolio, a one-off rates credit of £2.8m has been recognised in 2009.

Group administrative costs increased from £18.3m in 2008 to £20.0m in 2009 mostly due to increased staff costs resulting from a 13% higher headcount. This reflects the full internalisation of the property management function during the year which was previously mostly outsourced. In addition, the 2009 income statement includes a charge of £1.6m for the increase in fair value of cash-settled share options against a credit in 2008 of £1.6m; these movements are outside our direct control as they are linked to share price performance.

The net finance cost within the income statement reflects the troubled nature of debt markets over much of the last two years though our interest rate hedging policy has naturally mitigated the impact of interest rate movements. LIBOR was high through the first nine months of 2008 but has fallen to historically low levels since and floating interest rates remained very low throughout 2009. Due mainly to the reduction in the average cost of our debt as well as the lower net debt position resulting from our property sales programme, net finance costs excluding foreign exchange gains and losses reduced significantly during the year to £37.0m from £47.2m in 2008. The foreign exchange movements arose on the retranslation of a US dollar-denominated loan from a non-trading US subsidiary. In 2009, as sterling recovered some of its 2008 losses, the income statement reflected a foreign exchange gain of £3.6m against a loss of £8.3m in 2008; in both years, the net asset impact is effectively nil as there is an equal and opposite movement taken to reserves.

The result of the above is that the recurring profit before taxation for 2009 was £60.2m, a figure enhanced to some extent by certain items which are unlikely to be repeated in 2010. The comparative figure for 2008 was £23.3m. Adjusting both years to remove the impact of the items discussed above gives an adjusted recurring profit before taxation of £55.4m for 2009 against £38.3m in the previous year, which equates to a year on year improvement of almost 45%. These adjustments have been made to provide a clearer indication of the trend in underlying recurring profits.

The group loss before taxation is a function of recurring profit before taxation as well as the property revaluation movement, adjustment to the fair value of derivatives, and profits or losses on the sales of investment properties. In 2009, the revaluation deficit was £81.1m for the group's property portfolio and £1.3m for the group's share of joint ventures against comparative figures of £602.1m and £1.3m, respectively. The theoretical mark-to-market cost of unwinding the group's interest rate hedging instruments decreased by £3.9m in 2009 as interest rate expectations in the medium-term picked up. The prior year had seen a significant deterioration in sentiment such that the fair value adjustment taken to the income statement in 2008 was a cost of £28.1m. The net proceeds of £201.8m on the sale of investment properties during 2009 were predominantly contracted in a falling market and, hence, showed a loss against 2008 book value amounting to £16.6m or about 7.7%. More than half of the loss on disposal recognised in 2009 results from our best estimate of the losses on three properties in Charing Cross Road subject to compulsory purchase orders in connection with the Crossrail project. The final reckoning of the proceeds payable by Crossrail remains under negotiation. The total profit on investment property disposals in 2008 was £1.2m on net proceeds of £72.6m.

The resulting effect of all these factors was a reported loss before taxation for the year of £34.9m in 2009 as compared with a loss of £606.5m in 2008.

Derivation of adjusted recurring profit before tax

	2009 £m	2008 £m
Reported loss before taxation	**(34.9)**	(606.5)
Adjusted for:		
Revaluation deficit	**81.1**	602.1
Share of joint venture revaluation deficit	**1.3**	1.3
Movement in fair value of derivatives	**(3.9)**	28.1
Loss/(profit) on sale of investment property	**16.6**	(1.2)
Development income	**–**	(0.5)
Recurring profit before tax	**60.2**	23.3
Add back surrender premium in 2008	**–**	8.3
Foreign exchange movement on intercompany loan	**(3.6)**	8.3
One-off rates credit	**(2.8)**	–
Movement in cash-settled share options	**1.6**	(1.6)
Adjusted recurring profit before tax	**55.4**	38.3

Taxation

The net tax credit arising in 2009 was £9.4m compared to £9.3m in 2008. Both years benefited from the reversal of tax provisions as prior year losses were utilised following agreement with HMRC. The tax credit recognised in 2009 was £11.1m and in 2008 was £7.1m. Current year tax charges on the non-REIT part of the UK business were £3.0m, an increase from £1.4m in 2008. The prior year also showed a higher deferred tax credit due to the larger revaluation deficit in that year.

European Public Real Estate Association (EPRA) data

As a member of EPRA, we support their aim to provide industry-standard measures of adjusted net asset value and earnings. The table below shows the relevant figures for 2009 and the prior year:

	2009	2008
Diluted EPRA net asset value per share	**1,141p**	1,200p
Diluted EPRA earnings per share	**55.23p**	23.22p

Finance review

Financing

Financing, net debt and cash flow

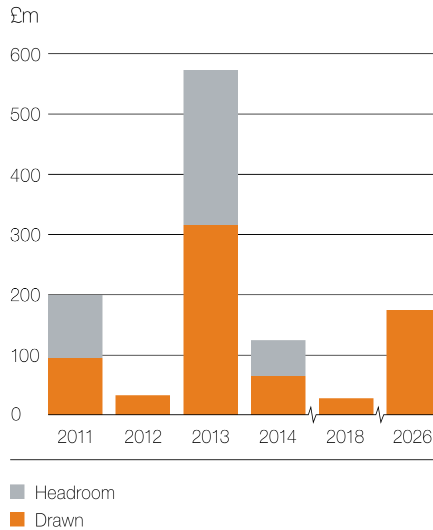
As a result of the £201.8m of property sales proceeds referred to on the previous page, the group's net borrowings have been reduced by £142.0m from £865.4m to £723.4m during 2009 despite investing £104.8m of capital expenditure and property acquisitions in our portfolio during the same year. The net cash generated during 2009 and available to repay loans was £140.2m.

A summarised cash flow for the last two years is shown below:

	2009 £m	2008 £m
Cash received from tenants	**125.4**	109.6
Development and other income	**1.0**	14.1
Less: direct property expenses	**(10.2)**	(22.8)
	116.2	100.9
Property disposals including trading properties	**202.0**	72.6
	318.2	173.5
Administrative and staff expenses	**(17.1)**	(16.2)
Net interest paid	**(39.1)**	(45.6)
Acquisitions of properties	**(10.2)**	(31.9)
Capital expenditure	**(94.6)**	(72.9)
REIT conversion charge	**–**	(53.6)
Dividends paid	**(24.3)**	(23.5)
Taxation	**6.5**	(8.9)
Other	**0.8**	(4.6)
Increase/(decrease) in cash before loan movements	**140.2**	(83.7)

Derwent's ability to sell in difficult market conditions is a major part of the reason for the modest level of balance sheet gearing at the end of the year, assisted by the moderate level of gearing at the start of the credit crunch. Balance sheet gearing has correspondingly been reduced to 62.2% in December 2009 from 71.2% a year earlier and the ratio of net debt to property values fell from 39.7% in December 2008 to 36.4% at 31st December 2009. Other factors in explaining why we have not needed to recapitalise the business during 2009 were sensible financial covenants under debt facilities and our consistent focus on maintaining income across the portfolio. These characteristics have, over a number of years, instilled confidence in our lenders and we will continue to nurture the valued relationships that have been built up, as well as forging new ones, through the coming years. In addition to the facilities refinanced in 2008, the group renewed a £125m bank facility in the second quarter of 2009 such that the next facility due for refinancing does not arise until December 2011. We have already started to consider options to refinance this facility and it is clear that banks are willing to lend again though only to their chosen customers.

Loan facility maturity profile
£m



Interest margins charged by lenders on newly negotiated facilities appear to have stabilised at a level roughly twice that of two years ago and are based on lower loan-to-value ratios of up to around 60%-65%. There are signs of increasing confidence and competition amongst lenders which should lead to slightly more favourable lending terms as the year progresses but we remain cautious about medium-term refinancing prospects. The combined impact of the exceptional level of government borrowing, the weight of refinancing requirements facing the lending banks and commercial mortgage backed securities sectors over coming years and the Bank of England's programme of quantitative easing will take some time to work through the economy.

While there are uncertainties ahead, opportunities to add more projects to our portfolio will undoubtedly arise. Crucially, the actions taken by the board have increased further the headroom on our bank facilities, most of which include revolving credit facilities thereby allowing us the flexibility that we need to respond quickly. As at 31st December 2009, the group held available undrawn loan facilities of £425m, up from £291m at 31st December 2008. Based on the December 2009 security and property valuations, about £353m was immediately drawable and the group also held properties totalling £338m uncharged to lenders.

All financial covenants under loan facilities have been comfortably exceeded during the year. The group's overall interest cover ratio is an important key performance indicator within the business and an emphasis on striking the right balance between income and added value through refurbishment or development has long been an inherent trait of Derwent. The lower finance costs referred to above have prompted a strengthening of group interest cover (defined as gross property income excluding surrender premiums received less ground rents, divided by interest payable on borrowings net of cash) to 330% in 2009 against 247% in 2008. Note also that our accounting policy is not to capitalise interest relating to any refurbishment or development project during which a property is typically not producing income.

Liability risk management

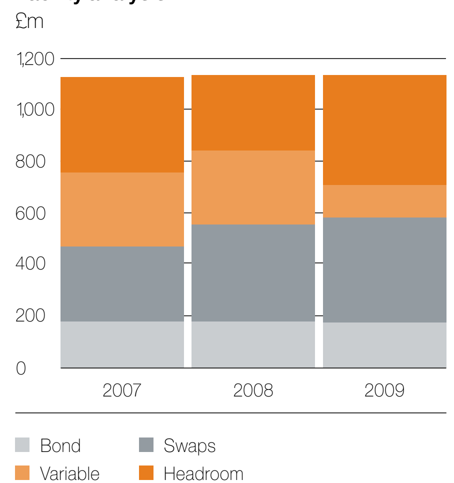
The group started 2009 with 65.7% of its debt protected by a combination of fixed rate or floating rate loans subject to interest rate swaps or caps. While the group's revolving loans have been reduced, the cost of closing out existing swap contracts was considered to be unattractive and the notional amount of swapped or capped loans has increased by £28m during the year as a new loan facility entered into in 2008 was hedged during the year. Accordingly, the proportion of loans hedged has increased to 82.1% of total debt as at 31st December 2009. This is a little above our target range of 40% to 75%; however, all other things being equal, it will revert to within that range during October 2010 upon the maturity of a £50m swap contract.

The fair value of the group's interest rate hedging derivatives has improved by £3.9m during 2009 as medium-term interest rate expectations have moved up after the significant falls of 2008 though the mark-to-market adjustment remains a liability in the group balance sheet as at 31st December 2009 of £23.0m against £26.9m in 2008.

As reported last year, IFRS 3 required the £175m secured bond to be fair valued at the date of acquisition by the group and for that fair value to be amortised over the remaining life of the bond. The residual amount as at 31st December 2009 was £20.2m (20p per share) compared with £20.9m (21p per share) in 2008.

The weighted average cost of the group's debt reduced to 5.00% as at 31st December 2009 from 5.47% a year earlier and is currently about 5.02%. The weighted average cost of the group's bank debt is 4.52% inclusive of margin.

Facility analysis
£m



Responsibility

It is how

- buildings complement and enhance their environments;
- people connect with the places in which they live and work;
- those places can bring out the best in their occupants; and
- we communicate with our tenants.

Together, these elements create communities and a sense of place.

The Angel Building, EC1

Sustainability

Our sustainability commitments are aligned and integrated with our strategic business priorities

We recognise our responsibility to manage the environmental, social and economic impacts of our business activities. Our sustainability commitments are aligned and integrated with our strategic business priorities, representing an important element of the company's risk management strategy and offering the potential for significant value creation.

Work is now under way to integrate the commitments previously included in our environmental and social policies into a single Sustainability Policy, which will be publicly available on our website in 2010. Our Sustainability Policy will be supported by two 'frameworks': the Sustainability Framework for Assets and the Sustainability Framework for Projects. The frameworks, which are due to be implemented in 2010, will ensure that key sustainability issues are managed at all stages of the property lifecycle.

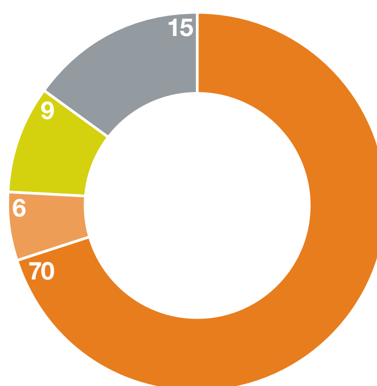
Governance

We have implemented a sustainability governance framework which ensures continual monitoring of progress against our targets at both an operational and strategic level. The group's sustainability policy is overseen by one of our directors, Mr Williams, who attends quarterly meetings with our sustainability consultants. The consultants also have quarterly meetings with key individuals responsible for the delivery of targets.

Green travel plans in place for 55% of our managed properties

Summary of progress in 2009
As in previous years, we continue to set ourselves a number of targets to stretch our performance on key sustainability issues. Performance against 34 targets, where performance could be measured, is set out below:

Summary of progress
%



Achieved
Partially achieved
Not achieved
Not started

Reflecting the nature of our targets for 2009, there were an additional 17 targets which related to ongoing processes where it is not possible to measure an achievement level, and these have therefore been excluded from the analysis above. Performance against all targets is detailed in our 2009 sustainability report. For our 2010 targets, we have focused on setting more specific and measurable targets which will allow more transparent and accurate assessment of progress.

Environment
Sustainable building design is at the centre of our commitment to effective environmental management. We aspire to BREEAM 'Excellent' rating on all new developments with a minimum 'Very Good' rating for all major refurbishments. Both the Charlotte Building and Arup Phases II & III are currently awaiting certification and predicted to achieve 'Very Good' and the pre-assessment of the Angel Building also indicated a 'Very Good' rating is achievable. Our current work to develop a Sustainability Framework for Projects will help us move towards BREEAM 'Excellent' on future projects.

Tenant websites are now fully operational at 17 of our managed properties with a further nine due to go live during 2010. These provide an effective tool for engaging with tenants on environmental issues and the tenant feedback has been positive. We continue to engage with our tenants on key environmental issues such as energy and waste. For instance, we held a number of 'Engineering Forums' in our buildings to give tenants the opportunity to meet with the facilities managers and representatives from the engineering maintenance team. We have also developed Green Travel Plans for 17 of our managed properties. Our current work to develop a sustainability framework for assets will help us to ensure that initiatives which have been successfully implemented in one location can be rolled out successfully across the portfolio.

Our environmental review and internal seminar series in 2008 highlighted a strong employee view that climate change should be a priority environmental issue for Derwent London. In response, during 2009 we focused on improvements to the energy performance of our buildings. By achieving a 'B' rated Energy Performance Certificate (EPC) for Arup Phases II & III and the Charlotte Building, we exceeded our target to achieve at least a 'C' rated EPC for new buildings in excess of 3,000m^2. As a 'B' rating or higher is generally only awarded for exceptional air-conditioned offices, these buildings perform better than many central London buildings, for which a typical EPC rating is a 'C'. We are also on track to meet our target for the Angel Building, which is currently under construction. Our new buildings include energy efficient features such as displacement air conditioning and DALI lighting (Digital Addressable Lighting Interface).

During the year, we have also reviewed the energy performance of our managed portfolio. We appointed specialist consultants to conduct detailed energy surveys of 1 Oliver's Yard, the Davidson Building and the Johnson Building, which identified a number of potential improvements for these buildings and broader recommendations for improving energy performance across the portfolio. We are now in the process of taking corrective measures, monitoring the results and applying our findings to

‘Green’ leases introduced in 2009

Average recycling rate –

56%

compared to target of 40%

other buildings, with the aim of reducing the annual carbon emissions from our portfolio in 2010. In 2009, this has already resulted in a 1% reduction in carbon emissions per square metre across the portfolio to 85.15 kg CO_2/m^2, and we anticipate further carbon savings in 2010. We also provided a voluntary disclosure to the Carbon Disclosure Project (CDP) outlining our annual carbon emissions and approach to carbon management. The response is publicly available on the CDP website.

Our successful programme of tenant engagement to increase the proportion of waste recycled in our managed properties also continued in 2009. Two visits to our waste contractor’s recycling centre were attended by 16 tenants, and the topic of waste and recycling was featured during our tenant meetings. We are pleased to report an average recycling rate of 56% at the properties where we have control over waste management. This is a significant improvement on last year and above our target of 40%. This year all 13 properties for which we have control over waste management achieved the target of 40%, compared to seven out of 12 properties last year.

We have continued to install water meters in our managed properties and in 2009, water usage increased marginally by 1% compared to 2008. This is largely as a result of the installation of showers to encourage tenants to cycle to work. However, usage is below the industry good practice guideline for offices of $0.55m^3/m^2$, which we have set as our internal target. We ensure that options for recycling rain water are considered in all new projects and aim to further reduce our water consumption across the portfolio. In addition to monitoring water usage across our managed portfolio, we have also started to monitor water usage in our development projects with a view to reducing consumption where possible.

We have introduced a number of ‘green clauses’ concerning environmental matters into our standard lease as a way of influencing tenant behaviour at properties that we do not manage. → see page 17

We are also working hard to ensure the sustainable use of materials in our construction and refurbishment projects, and responsibly sourced timber continues to be a priority in all our projects. Our pioneering ‘White Collar Factory’ concept, launched in 2009, will help us to reduce our use of new materials and to reduce waste. It provides a simplified specification: a flexible and adaptable space that can be tailored to tenant needs, rather than a high specification, fully glazed, air-conditioned Category A office space. Features such as increased natural light and natural ventilation also help to reduce the building’s energy demand and lead to improvements in user wellbeing. → see page 22 We have taken this concept and applied it to the design of the Hampstead Road project.

Customers

As part of our commitment to high standards of customer service, we implemented a number of tenant-focused initiatives in 2009. Our annual customer survey asked all tenants for their opinions on a range of property management issues including matters relating to security, works and repairs and the environmental aspects of buildings in operation. With an encouraging 22% return rate, key highlights (where tenants stated excellent or good) included 65% satisfaction with building design and main reception and 75% satisfaction with rent and service charge communication. We have been working closely with building managers since the survey was completed to implement a number of improvements to our management, typically on maintenance concerns.

Health and safety remains a core management priority in our managed portfolio. We are pleased to report that there were zero RIDDOR (Reportable Injuries, Diseases and Dangerous Occurrences Regulations) incidents at our multi-let managed properties. To maintain these high standards we have taken steps to introduce formal health and safety training for our property managers covering, amongst other things, procedures for dealing with reportable accidents, major injuries and fire.

2009 employee turnover:

7.4%

Suppliers

We are committed to treating our suppliers with fairness and respect – which is especially important during times of economic uncertainty. We continue to commit to pay suppliers within 28 days of invoice receipt. The average head office payment period for both 2008 and 2009 was 21 days. We also conducted a pilot survey with suppliers to gauge their feedback in relation to Derwent London's supply chain management practices. The feedback received from this survey was very positive, particularly in regard to our openness in communication and payment terms. Following this successful pilot, a more extensive survey of supply chain management practices will take place in 2010.

Communities

We understand the importance of fostering strong links with local communities. Part of this is working closely with contractors to ensure minimum disruption and nuisance during construction works. Of the three sites eligible for the Considerate Constructors Scheme – which assesses construction sites in line with a good practice code – all achieved well over the good practice threshold and our 2009 target of 32 out of 40, with the Angel Building scoring 36.5 out of 40 ('an exceptionally good site') and the Charlotte Building and Arup Phases II & III both scoring 34 out of 40 ('a very good site'). The Angel Building has subsequently been submitted for the Considerate Constructors Scheme's annual national award.

Our initiative to regenerate the Fitzrovia area of London, where we own over one million sq ft of property, has also seen significant progress over the past 12 months. The Fitzrovia Partnership's primary focus this year has been to establish representation amongst local businesses. A full time partnership coordinator was appointed during 2009 as well as a street ambassador who will be a visible presence in the area. We continued our member recruitment drive and are pleased to report the addition of City Corporation. Make Architects were appointed to conduct a public realm study of Fitzrovia which will help to prioritise improvements.
→ see page 23

Angel Building submitted for the Considerate Constructors Scheme's national award

Employees

Employee turnover in 2009 was 7.4%, well below the overall national turnover rate for the UK of 15.7%. We believe this reflects our commitment to talent retention which is driven by a stimulating work environment and competitive remuneration and benefits. As our business continues to grow, the need for more formal HR processes and procedures becomes an increasingly important priority. In 2009, we implemented a revised employee appraisal process to promote structured feedback as part of our employees' professional learning and development. We achieved a 100% return on appraisals at both the annual and mid-year reviews and all requirements for training were met through external or internal courses or on-the-job learning.

Priorities in 2010

Targets form a key component of our sustainability policy, driving improvements in performance across all sustainability impact areas. Our targets this year demonstrate a greater degree of integration between social and environmental issues and a focus on measurable action. The key targets for 2010 are as follows:

- developing a sustainability policy to integrate the commitments in our current environmental policy and social policy;
- creating a sustainability framework for projects to ensure that sustainability considerations are appropriately taken into account at all stages of the design and construction process;
- creating a sustainability framework for assets to ensure that sustainability considerations are managed consistently across the managed portfolio;
- implementing the recommendations identified in our pilot study which assessed the energy performance of our managed portfolio;
- strengthening tenant communication to encourage improved environmental performance at multi-let properties;
- improving health & safety management systems at multi-let properties;
- focusing on sustainable procurement and supply chain management practices; and
- liaising with, and showing consideration for, local communities during large and small developments.

A full list of our targets for 2010 will be included in our 2009 sustainability report.

Risk management

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

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 register was reviewed in February 2010 and the principal risks and uncertainties that the group faces in 2010, together with the controls and mitigating factors, are set out below:

Strategic risks

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

Risk	Controls and mitigating factors
– The group's strategy is inconsistent with the market environment. – The group's development programme is not consistent with the economic cycle.	The group carries out a five-year strategic review and prepares regular rolling forecasts covering the next two years. In both exercises, the board considers the effect on key ratios of changing the main underlying assumptions and set these so as to best realise its long-term strategic goals. This flexibility arises from the policy of maintaining income from properties until development starts.

Financial risks

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

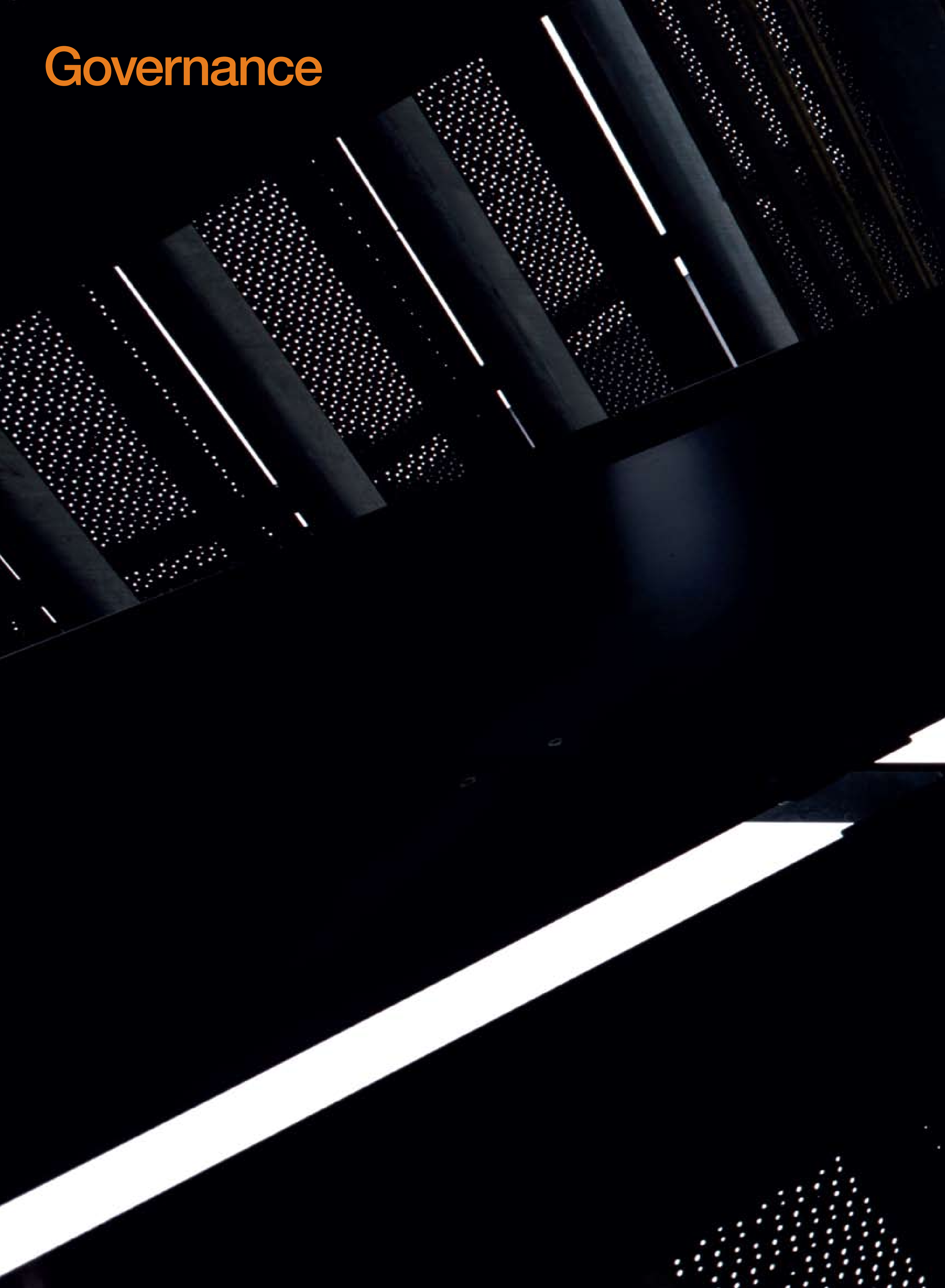
Risk	Controls and mitigating factors
– A substantial decline in property values or a material loss of rental income could result in a breach of the group's financial covenants. This may accelerate the repayment of the group's borrowings or result in their cancellation.	The group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as balance sheet gearing. Treasury control schedules are updated weekly whilst the rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken. The group has a considerable amount of uncharged property that could be used in such circumstances.
– The group's cost of borrowing is increased due to an inability to raise finance from its preferred sources.	The group's five-year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This allows sources of finance to be identified and evaluated and, to a degree, the finance to be raised when market conditions are favourable.
– Financing costs are higher due to increases in interest rates.	The group uses interest rate derivatives to 'top up' the amount of fixed rate debt to a level commensurate with the perceived risk to the group.
– The group incurs tax penalties or loses its REIT status due to failing to comply with the REIT legislation.	The group's rolling forecast monitors compliance over the forecast period which enables any potential non-compliance to be identified and corrective action to be taken at an early stage.

Operational risks

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

Risk	Mitigation
– The implementation of the group's strategy is inhibited by an inability to acquire assets at an attractive price.	The size of the central London market in which the group operates, means that such a situation is unlikely to persist for very long. During this time, the group is able to develop opportunities from within its existing portfolio.
– The group's development projects do not produce the anticipated financial return due to delays in the planning process, increased construction costs or adverse letting conditions.	Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. The scale of the group's development programme is managed to reflect anticipated market conditions.
– The group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt.	Prospective tenants are considered by the group's credit committee and security is taken where appropriate. The group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.
– The financial return of the group's developments is reduced due to the insolvency of a contractor or sub-contractor.	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.
– The group's reputation is damaged due to a breach of health and safety regulations.	The group employs a health and safety executive who establishes appropriate policies for the group's offices and an external health and safety supervisor is appointed for each development project. All significant accidents are reported to the board and reports for each scheme are submitted regularly to the board.
– The group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	The remuneration packages of all employees are regularly benchmarked. Six-monthly appraisals identify training requirements which are fulfilled over the next year.

Governance



Board of directors

R.A. Rayne, 61
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 the London Stock Exchange. He is also a non-executive director of Weatherford International Inc., an international oil services company quoted on the New York Stock Exchange, and was chief executive officer of London Merchant Securities plc.

J.C. Ivey, 68
Non-executive deputy chairman
A chartered accountant, Mr Ivey was a director of RWS Holdings plc until January 2010 and was formerly chief executive of The Davis Service Group plc. He has served on the board since 1984 and is a member of the nominations committee.

Previous page:
The Angel Building, EC1

J.D. Burns, 65
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, 59
Head of development
Mr Silver has overall responsibility for the development and regeneration programme. He became a director in 1986 and is an honorary fellow of the Royal Institute of British Architects. He is also a partner in The Pilcher Hershman Partnership.

D.M.A. Wisniewski, 48
Finance director
Mr Wisniewski joined the board on 1st February 2010. He is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting. Previously, he was finance director of Treveria Asset Management. Prior to that, he was chief operating officer of the Wood Wharf Limited Partnership and group finance director of Chelsfield plc.

N.Q. George, 46
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 portfolio management, supervision of refurbishment and development projects and sustainability.

D.G. Silverman, 40
Executive director
Mr Silverman joined the board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals.

R.A. Farnes, 64
Senior independent director
Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board in 2003. He chairs the remuneration committee and is a member of the audit and nominations committees.

S.J. Neathercoat, 61
Non-executive director
Mr Neathercoat is a chartered accountant. He joined the board in 1999 and chairs the audit committee whilst serving on the remuneration and nominations committees. He is chairman of London Medical Technologies plc and was previously a managing director of Dresdner Kleinwort Wasserstein.

S.A. Corbyn, 65
Non-executive director
Mr Corbyn is a charted surveyor. He was appointed to the board in 2006. Until December 2008, he was chief executive of Cadogan Estates, one of the principal private estates in London, and is a former president of the British Property Federation. He chairs the nominations committee and is a member of the audit and remuneration committees.

J. de Moller, 62
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, 67
Non-executive director
Mr Newell is a charted surveyor. He joined the board in February 2007. Previously, he was senior partner of Hillier Parker May & Rowden, chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services Inc., a non-executive director of London Merchant Securities plc and a past president of the British Council of Offices. He is a member of the audit, remuneration and nominations committees.

Statement of directors' responsibilities

Directors' responsibilities

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

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

Group financial statements

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

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

The directors confirm to the best of their knowledge that:

- they have complied with the above requirements in preparing the financial statements which give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the business review includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

On behalf of the board

J.D. Burns,
Chief executive officer

D.M.A. Wisniewski,
Finance director
17th March 2010

Directors' report

The directors present their report and the financial statements for the year ended 31st December 2009.

Business review

The information required by section 417 of the Companies Act 2006 and by rules 4.1.8 to 4.1.11 of the Disclosure and Transparency Rules is given on pages 6 to 43. These sections should be read in conjunction with this report and are incorporated into the directors' report by reference.

The disclosures in respect of the use of financial instruments are given in notes 26 and 27 of the financial statements.

Share capital

As at 17th March 2010, 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 29 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-quarters 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 class meeting of the holders of the relevant class of shares. At every such separate class meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in amount 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 (AGM) held in 2009 to allot relevant securities up to a nominal amount of £1,680,119. That authority will apply until the conclusion of this year's AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,686,346, and (ii) comprising equity securities up to a nominal amount of £3,372,693 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the 'section 551 authority'), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £252,951.

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 10,118,080 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 52, the company has been notified of the following interests in the issued ordinary share capital as at 17th March 2010.

	Number of shares	Percentage of issued share capital
Withers Trust Corporation	6,217,444	6.16
Withers Trust Corporation Ltd and James McCarthy	5,548,731	5.50
Blackrock Investment Management (UK) Ltd	5,183,709	5.13
Cohen & Steers Capital Management Inc	4,970,225	4.92
Standard Life Investment Ltd	4,284,390	4.24
Third Avenue Management LLC	3,944,764	3.91
Lady Jane Rayne	3,593,838	3.56
Legal & General Investment Management	3,482,391	3.45

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. A special resolution will be proposed at this year's AGM making a number of changes to the company's articles arising from the Companies Act 2006 and the Companies (Shareholders' Rights) Regulations 2009.

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;
- to withhold the payment of dividends to a substantial shareholder; and
- to require the disposal of shares forming part of a substantial shareholding.

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

Fixed assets
The group's freehold and leasehold investment properties were professionally revalued at 31st December 2009, resulting in a deficit of £72.5m, before deducting the lease incentive adjustment of £8.6m. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £1,888.6m. Further details are given in note 17 of the financial statements.

Post balance sheet events
Details of post balance sheet events are given in note 39 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. 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, six executive directors, Messrs Burns, Silver, Odom, George, Williams and Silverman, and six non-executive directors, Mrs de Moller and Messrs Ivey, Neathercoat, Farnes, Corbyn and Newell. On 1st February 2010, Mr Odom resigned as a director and was replaced as finance director by Mr Wisniewski.

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 carried out the annual review of the roles and performance of all directors which included reconsidering the independence of the non-executive directors.

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

Mr Ivey has served on the board for more than nine years and is therefore not deemed independent. Having considered his expertise and the manner in which he carried out his duties during the year, the board has no concern that his independent judgement is in any way impaired. Mr Neathercoat is also not deemed independent, having served as a non-executive director for more than nine years. The board has reviewed his independence and concluded that he continues to show strong independence in both judgement and in the performance of his duties as a director. Neither director has any association with management that might compromise his independence.

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 and its committees with a view to ensuring an orderly change process. As a result of this review, on 1st January 2010, Mr Corbyn became chairman of the nominations committee replacing Mr Ivey and Mr Farnes took over as senior independent director from Mr Neathercoat. In addition, the committee agreed to commence a process of refreshment. This is likely to run for three years and will commence by recruiting a new, independent non-executive director during 2010 who, in due course, will take over as chairman of the audit committee. At the AGM in 2011, one of the group's long-serving non-executive directors will retire.

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. Biographies of the directors are given on page 46.

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 2010. Extra meetings will be arranged if necessary. Additionally, the executive board, which consists of the executive directors met 10 times in 2009. 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 Mrs de Moller and Messrs Neathercoat, Corbyn and 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 2009. The report on directors' remuneration is set out on pages 55 to 62.

Audit committee

This committee is chaired by Mr Neathercoat and is served by Messrs Corbyn, Farnes and Newell and Mrs de Moller. 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 2009. The report of the audit committee is on page 63.

Nominations committee

Mr Ivey chaired this committee until 1st January 2010 when Mr Corbyn took over this role. The committee consists of all of the non-executive directors, except the chairman. Its responsibilities include identifying external candidates for appointment as directors and, subsequently, recommending their appointment to the board 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 nominations committee report is on page 64.

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

	Full board	Executive board	Remuneration committee	Audit committee	Nominations committee
No. of meetings	6	10	4	4	1
Executive directors					
J.D. Burns	6	10	–	–	–
S.P. Silver	6	8	–	–	–
C.J. Odom	6	9	–	–	–
P.M. Williams	6	10	–	–	–
N.Q. George	6	9	–	–	–
D.G. Silverman	6	9	–	–	–
Non-executive directors					
R.A. Rayne	6	–	–	–	–
J.C. Ivey	6	–	–	–	1
S.J. Neathercoat	6	–	4	3	1
R.A. Farnes	6	–	4	4	1
S.A. Corbyn	6	–	4	4	1
D. Newell	6	–	4	4	1
J. de Moller	6	–	3	4	1

Performance evaluation

During the year, 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 based on the guidance contained in the Higgs Report.

Directors

The 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.

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 AGM of the company and is then eligible for re-appointment. The board or any committee authorised by the board may from time to time appoint one or more directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

At every AGM of the company any director who has been appointed by the board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. The company may by special resolution remove any director before the expiration of his period of office. The office of a director shall be vacated if:

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

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

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

Powers of the directors
Subject to the company's memorandum of association, its 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.

During the year, directors exercised options over 105,250 shares. The exercise prices were as follows: 13,000 shares at £5.015; 8,750 shares at £5.53; 39,000 at £6.725 and 44,500 at £7.235. No new options were granted to directors under the Executive Share Option Scheme. A conditional grant of 405,100 shares was made to directors under the Performance Share Plan whilst 34,713 shares vested to the directors from an earlier conditional award at a zero exercise price. The remaining 60,387 shares of this award lapsed.

In accordance with the articles of association, at the next AGM Messrs Rayne, George, Corbyn and Newell retire by rotation and, being eligible, offer themselves for re-election. In addition, having been appointed since the last AGM and being eligible, Mr Wisniewski offers himself for re-election. In accordance with the principles of good corporate governance, Messrs Neathercoat and Ivey retire, both having served on the board for more than nine years and, being eligible, offer themselves for re-election. Biographies of all the directors are given on page 46.

Other than as disclosed in note 41, the directors have no interest in any material contracts of the company.

	Ordinary shares of 5p each		Options	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
R.A. Rayne	4,350,017	4,350,017	382,746	382,746
J.C. Ivey	79,072	79,072	–	–
J.D. Burns	784,669	775,201	243,800	187,740
S.P. Silver	377,687	377,687	171,240	102,700
C.J. Odom (resigned 1st February 2010)	47,952	41,867	137,075	137,995
N.Q. George	24,482	22,820	162,955	132,645
P.M. Williams	29,302	25,977	140,455	132,395
D.G. Silverman	–	–	97,450	54,750
D.M.A. Wisniewski (appointed 1st February 2010)	–*	n/a	–*	n/a
S.J. Neathercoat	8,000	8,000	–	–
R.A. Farnes	6,838	6,838	–	–
S.A. Corbyn	1,000	1,000	–	–
J. de Moller	2,985	2,985	–	–
D. Newell	1,492	1,492	–	–

*As at date of appointment

On 18th January 2010 directors exercised options over 118,000 shares following which the number of options held by those directors was as follows: Mr Odom 111,075; Mr George 105,705 and Mr Williams 105,705. There have been no other changes in any of the directors' interests between the year-end and 17th March 2010.

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 AGM provides an opportunity for shareholders to question the directors and, in particular, the chairman of each of the board committees. An alternative channel of communication to the board is available through the senior independent director.

Risk management and internal control

The principal risks and uncertainties facing the group in 2010, together with the controls and mitigating factors are set out on pages 42 and 43. The systems that control the risks form the group's system of internal control. The key elements of the group's financial control framework are:

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

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

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

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.

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 LLP have expressed their willingness to continue in office and accordingly, resolutions to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the AGM. These are resolutions 11 and 12 set out in the notice of meeting that accompanies the report and accounts.

Annual general meeting

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

Resolution 13 will renew the authority of the directors under Section 551 of the Companies Act 2006 to allot shares. Paragraph A of the resolution gives the directors authority to allot ordinary shares up to an aggregate nominal amount of £1,686,346 which represents about one-third of the issued ordinary share capital (excluding treasury shares) of the company as at the latest practicable date prior to the publication of this document.

In line with guidance issued by the Association of British Insurers, paragraph B of the resolution gives the directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £3,372,693, 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 AGM after the passing of the resolution or, if earlier, the close of business on 25th August 2011.

Resolution 14 is a special resolution, proposed annually, and will renew the directors' authority under section 571 of the Companies Act 2006. The resolution empowers the directors to allot or, now that the company may hold shares as treasury shares (as further described below), sell shares for cash in connection with pre-emptive offers with modifications to the requirements set out in section 561 of the Companies Act 2006. 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 £252,951 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 13 would be limited to allotments by way of a rights issue only (subject to the right of the board to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters.)

The authority will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier, the close of business on 25th August 2011.

Resolution 15 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 2006 permits the company to hold any such repurchased shares as treasury shares 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 15, 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 treasury shares.

The total number of options to subscribe for ordinary shares outstanding at 17th March 2010 was 1,374,166, which represented 1.36% 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 2010 would represent 1.68% of the issued share capital (excluding treasury shares).

Resolution 16 is proposed to adopt new articles of association in order to update the company's current articles of association primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 and the implementation of the last parts of the Companies Act 2006.

Resolution 17 is required to reflect the implementation of the Shareholder Rights Directive, which increased the notice period for general meetings of the company to 21 days. The company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. The approval will be effective until the company's next AGM when it is intended that a similar resolution will be proposed.

By order of the board

T.J. Kite ACA
Secretary
17th March 2010

Report of the remuneration committee

Remuneration committee

The remuneration committee is chaired by Mr Farnes with Messrs Neathercoat, Corbyn and Newell and 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 and selected other senior executives. It also oversees the operation of the group's bonus scheme and performance share plan and considers whether the schemes encourage the taking of excessive business risk. The full terms of reference of the committee are available on the company's website.

Hewitt New Bridge Street (HNBS) – a trading name of Hewitt Associates – was retained to provide independent assistance to the committee regarding the operation of the performance share plan and bonus scheme. In particular, HNBS determine the extent of vesting of outstanding share awards and ensure that the measures used for both schemes are comparable and consistent. Hewitt Associates provided no other services to the group during the year. No director had any involvement in determining his own remuneration although some of the matters considered by the committee were discussed with 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, retains and motivates executives that have the skills and experience necessary to make a significant contribution to the delivery of the group's objectives;
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to 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; and
- to ensure 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 from 2008. The committee is satisfied that this structure remains appropriate for 2010. 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 2009, the committee agreed a basic increase of approximately 5% for 2010 which took into account the excellent performance of the management team over the past year and the increasingly competitive market in the sector for top performing executives. This follows the decision in 2008 to award no basic increase. The increase for 2010 does not apply to Mr Wisniewski who has only been recently appointed as finance director or to Mr Odom, who retired from the board in February 2010 and who will cease to be an employee following the AGM.

Messrs George, Williams and Silverman joined the board with below market salaries. The committee has, over a number of years, been awarding them additional salary increases above the basic increase, as a reflection of their increasing experience and importance to the business, so as to move them over time to an appropriate market benchmark. At the December 2009 review, the committee agreed an additional £20,000 increase for Messrs George and Williams. In respect of Mr Silverman, who joined the board more recently, the committee agreed an additional £30,000 increase which begins to close the gap between his salary and that of the other directors but which still leaves a significant differential. These amounts are in addition to the 5% basic increase awarded by the committee.

Resultant salaries effective from 1st January 2010, or the date of appointment if later, (2009 equivalents in brackets) are:
J.D. Burns £525,000 (£500,000),
S.P. Silver £450,000 (£425,000),
N.Q. George £335,000 (£300,000),
P.M. Williams £335,000 (£300,000),
D.M.A. Wisniewski £315,000 (n/a),
D.G. Silverman £275,000 (£235,000).

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

b) Annual bonus

The annual bonus structure remained unchanged in 2009 from 2008 and will be applied again in 2010. 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. 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 net asset value (NAV) growth compared to the total return of the properties in the IPD Central London Offices Index and total return (being NAV growth plus dividends) measured against that of other major real estate companies. An additional 25% is available for the committee to award at its discretion.

Provision has been made for an estimated bonus for 2009 of 62.5% of the maximum potential. In making this estimate, the committee has given due regard to the group's total return performance which placed it in the upper quartile of the comparator group together with the other achievements outlined earlier in the report and accounts.

c) Long-term incentives

The group's Performance Share Plan (PSP) was established in 2004, with a number of changes approved by shareholders at the 2008 AGM.

The maximum permitted annual award of shares under the plan is 200% of salary (with a higher limit of 300% of salary for use in the event of exceptional circumstances such as recruitment). The committee's policy for 2010, consistent with 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 2010 will be 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
  Capital & Regional plc
  Great Portland Estates plc
  Hammerson plc
  Land Securities plc
  Liberty International plc
  Minerva plc
  Quintain Estates and Development plc
  St Modwen Properties plc
  Segro plc
  Shaftesbury plc
  The British Land Company 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. TSR calculations are performed independently for the committee by HNBS; and
- 50% of an award will be determined by the company's NAV growth compared to the total return from properties in the IPD Central London Offices 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% pa	100
Intermediate	Intermediate	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 in table 2 on page 59.

Shareholding guideline

Following the independent review in 2007, and in line with best practice, the company has a share ownership guideline for executive directors requiring them to retain at least half of any share awards vesting from 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 and Silver 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. These contracts have no stated termination date but require 12 months' notice of termination by the company or six months' notice by the executive. A provision is included whereby the company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary, benefits in kind and a pension contribution or salary supplement of at least 20% of basic salary. No defined contractual entitlement to compensation arises from a change of control of the company. Mr Wisniewski's service contract is dated 1st February 2010. His contract reflects the latest developments in employment law and practice, as advised by Slaughter and May and, in addition to terms similar to those of the other directors, includes certain post-termination restrictions and a mitigation clause. Under this mitigation clause, instead of paying the liquidated damages provision outlined above, the company can, at its discretion, alternatively make monthly payments throughout the notice period until the executive obtains an alternative employment at which point (except in the event of the company giving notice following a change of control) monthly payments cease or are reduced depending upon the value of remuneration arising from the alternative role. If this clause is used by the company, monthly payments would comprise one-twelfth of the total of his annual basic salary, annual pension contribution, annual value of benefits in kind and 20% of his maximum bonus potential.

Chairman and non-executive directors

The remuneration for the chairman is set by the full board. The remuneration for non-executive directors, which consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee, is 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 share-based incentive schemes.

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

Details of directors' remuneration

Table 1

2009	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	469	42	249	**1,260**	**107**
S.P. Silver	425	398	22	97	**942**	**96**
C.J. Odom	315	246	18	328	**907**	**80**
N.Q. George	300	234	15	83	**632**	**70**
P.M. Williams	300	234	19	238	**791**	**69**
D.G. Silverman	235	184	15	–	**434**	**52**
Non-executive						
R.A. Rayne	150	–	31	–	**181**	**–**
J.C. Ivey	62	–	–	–	**62**	**–**
S.J. Neathercoat	53	–	–	–	**53**	**–**
R.A. Farnes	49	–	–	–	**49**	**–**
S.A. Corbyn	44	–	–	–	**44**	**–**
J. de Moller	44	–	–	–	**44**	**–**
D. Newell	44	–	–	–	**44**	**–**
	2,521	1,765	162	995	**5,443**	**474**

2008	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	Gains from equity settled schemes £'000	Total £'000	Under-provision of 2008 bonus £'000	Revised total £'000	Pension and life assurance £'000
Executive								
J.D. Burns	500	117	39	304	960	74	1,034	110
S.P. Silver	425	99	23	255	802	64	866	98
C.J. Odom	315	62	17	181	575	39	614	82
N.Q. George	300	58	15	156	529	38	567	71
P.M. Williams	300	58	19	165	542	38	580	71
D.G. Silverman	220	43	15	–	278	27	305	49
Non-executive								
R.A. Rayne	150	–	30	–	180	–	180	–
J.C. Ivey	62	–	–	–	62	–	62	–
S.J. Neathercoat	53	–	–	–	53	–	53	–
R.A. Farnes	49	–	–	–	49	–	49	–
S.A. Corbyn	44	–	–	–	44	–	44	–
J. de Moller	44	–	–	–	44	–	44	–
D. Newell	44	–	–	–	44	–	44	–
	2,506	437	158	1,061	4,162	280	4,442	481

Under the rules of the group's bonus scheme the level of the 2009 bonus entitlement can only be ascertained once the results of all the comparator companies have been announced.

The under-provision of the 2008 bonus, which has been recognised in the 2009 results, is the amount by which the final award under the bonus scheme exceeded the estimated amount included in the 2008 results. This revision was required because the committee could not determine 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) and the group's final ranking was higher than anticipated at the time that the estimate was prepared.

The total remuneration for 2008, which was previously disclosed as £4,162,000, has been revised to allow a correct comparison to be made between the two years.

Mr Burns received fees of £40,000 (2008: £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 2009 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
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
22.30	03/04/10	20,175	16,815	13,000	12,330	12,330	–	7,395	82,045
Interest as at 1st January 2008		83,365	69,675	52,920	47,770	49,020	–	27,535	330,285
Shares conditionally awarded during the year :									
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 the year:									
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 as at 31st December 2008		121,740	102,700	70,495	66,645	66,645	28,500	31,585	488,310
Shares conditionally awarded during the year:									
Market price at award date £	Earliest vesting date								
8.25	15/04/12	106,000	90,150	57,250	54,500	54,500	42,700	23,000	428,100
Shares vested or lapsed during the year:									
Market price at award date £	Market price at date of vesting £								
16.19	11.74	–	–	–	(5,636)	(5,636)	–	–	(11,272)
16.19	12.20	(9,468)	–	(6,085)	–	–	–	(3,154)	(18,707)
16.19	12.28	–	(7,888)	–	–	–	–	–	(7,888)
16.19	Lapsed	(16,472)	(13,722)	(10,585)	(9,804)	(9,804)	–	(5,486)	(65,873)
		(25,940)	(21,610)	(16,670)	(15,440)	(15,440)	–	(8,640)	(103,740)
Interest as at 31st December 2009		**201,800**	**171,240**	**111,075**	**105,705**	**105,705**	**71,200**	**45,945**	**812,670**

For all awards granted under the PSP:

– half of the shares vest based on TSR performance relative to a comparator group of companies. This element will only vest if the committee is also satisfied that the TSR performance reflects underlying financial performance; and

– half of the shares vest based on NAV performance compared to the total return of the properties in the IPD Central London Offices Index.

The TSR comparator group comprises the constituents, as at the date of grant, of the FTSE All-Share Real Estate Index for awards granted up to 2007 and a defined comparator group of real estate companies for awards in 2008 and 2009. The comparator group for 2010 is set out on page 57. 25% of awards subject to the TSR target vest for median performance over the three-year performance period increasing to full vesting for upper quartile performance.

If the group's NAV performance matches that of the median performing property in the index over the three-year performance period, 25% of awards subject to the NAV target vest. Vesting increases on a sliding scale to full vesting for matching the return from the upper quartile performing property in the index (awards up to 2007) or for out-performing the median performing property by 5% per annum (awards in 2008 and 2009).

The performance criteria in respect of the 2006 award were measured on 5th April 2009 and showed a vesting percentage of 36.5%. The balance of the awards lapsed. As required, before allowing any vesting, the committee considered whether the group's TSR performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the committee concluded that this was the case.

Share option schemes

Details of the options held by directors and employees under the group's executive share option schemes at 31st December 2009 are given in table 3 below.

No options were granted or lapsed during 2009 or 2008 and no options were exercised during 2008. The weighted average exercise price of options exercised in 2009 was £6.63 and the weighted average market price at the date of exercise was £12.03.

The exercise of options granted under the 1997 Executive Share Option Scheme is subject to a three-year performance criteria. This states that a year's options can only be exercised once the growth of the group's net asset value per share over a subsequent three-year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more.

All options other than those that become exercisable on 8th June 2009, have met this criteria.

Table 3

Exercise price £	Date from which exercisable	Expiry Date	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total 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	–	11,500	80,500
8.590	05/07/07	04/07/14	–	–	–	–	–	9,500	10,500	20,000
10.710	26/04/08	25/04/15	–	–	–	–	–	10,000	10,000	20,000
13.630	08/06/09	07/06/16	–	–	–	–	–	6,750	7,500	14,250
Outstanding at 1st January 2008 and 1st January 2009			66,000	–	67,500	66,000	65,750	26,250	46,000	337,500

Options exercised during the year

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

Table 3 (continued)

	31st December 2009	31st December 2008	1st January 2008
Number of shares:			
Exercisable	218,000	323,250	303,250
Non-exercisable	14,250	14,250	34,250
Weighted average exercise price of share options			
Exercisable	£6.40	£6.48	£6.20
Non-exercisable	£13.63	£13.63	£11.92
Weighted average remaining contracted life of share options			
Exercisable	2.78 years	3.32 years	4.12 years
Non-exercisable	6.44 years	7.44 years	7.79 years

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

Table 4

Exercise price £	Expiry date	R. A. Rayne	N. R. Friedlos	Employees	Total
9.54	05/11/11	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	–	12,780	1,081	13,861
12.03	28/06/15	41,456	–	–	41,456
Outstanding at 1st January 2008		382,746	12,780	8,244	403,770

Options exercised or lapsed during 2008

Exercise price £	Market price at date of exercise £	R. A. Rayne	N. R. Friedlos	Employees	Total
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 and 31st December 2009		**382,746**	**–**	**–**	**382,746**

No options were granted, exercised or lapsed during 2009 and no options were granted during 2008. The weighted average exercise price of options exercised during 2008 was £11.27 and the weighted average market price at the date of exercise was £14.31.

In respect of the options outstanding at 31st December 2009 in table 4 the weighted average exercise price is £9.52 (2008: £9.52) and the weighted average remaining contracted life is 2.4 years (2008: 3.4 years).

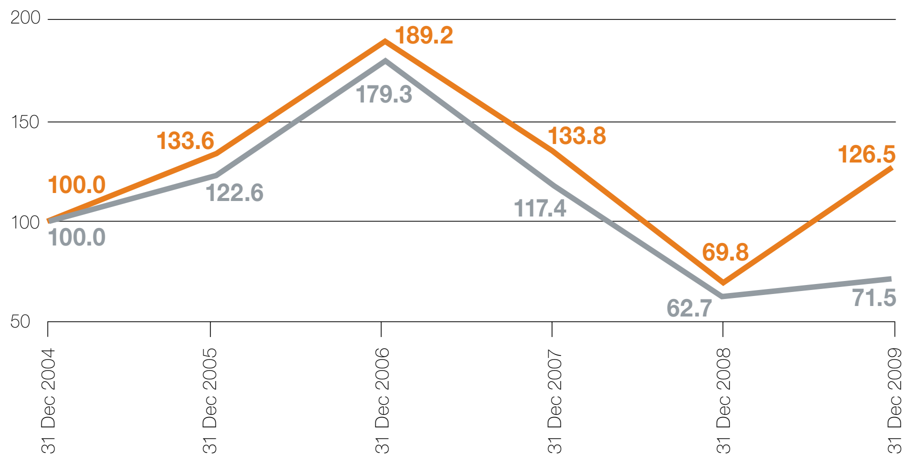
The market price of the 5p ordinary shares at 31st December 2009 was £13.20 (2008: £7.25). During the year, they traded in a range between £4.60 and £13.89 (2008: £6.07 and £16.01).

Performance graph

Net investment (Total shareholder return)

2004–2009

£



Derwent London

FTSE All-Share Real Estate Index/ All-Share Real Estate Investment Trust Indices

Source: Thomson Reuters

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

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

On behalf of the board

R.A. Farnes
Chairman of the remuneration committee
17th March 2010

Report of the audit committee

Membership
The committee is chaired by Mr Neathercoat and was served throughout 2009 by Messrs Corbyn, Farnes and Newell and 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 2009, 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 auditor's 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;
- 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;
- liaised with the company over the appointment of a new audit partner;
- 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; and
- reviewed an external report regarding the operation of the group's property management department.

S.J. Neathercoat
Chairman of the audit committee
17th March 2010

Report of the nominations committee

Membership
The nominations committee comprised the independent, non-executive directors, Messrs Neathercoat, Corbyn, Newell and Farnes and Mrs de Moller. Mr Ivey chaired the committee until 1st January 2010 when Mr Corbyn took over this role.

Roles and responsibilities
The terms of reference for the committee are available on the company's website.

Meetings
The committee will meet at least once a year to carry out the annual appraisal of the board and its committees. Further meetings are arranged, as required, to discharge the committee's responsibilities in connection with identifying and nominating to the board suitable candidates to fill vacancies for non-executive directors and, if requested, executive directors.

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 and consequently introduced a policy of change and refreshment. This will commence with the appointment of a new non-executive director during 2010 and be followed by a programme of refreshment over a number of subsequent years; and
- at the request of the company, met with and provided feedback on the candidates for the new finance director.

S.A. Corbyn
Chairman of the nominations committee
17th March 2010

Independent auditor's report

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

We have audited the financial statements of Derwent London plc for the year ended 31st December 2009 which comprise the group income statement, group and parent company balance sheets, the group and company statements of comprehensive income, the group and parent company cash flow statements, the group and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31st December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 47, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Richard Kelly
(senior statutory auditor)
For and on behalf of BDO LLP,
statutory auditor
London
United Kingdom
17th March 2010

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

Financial statements

Successful navigation of the economic downturn and strongly positioned to maximise future value.

The Angel Building, EC1

Group income statement

for the year ended 31st December 2009

	Note	2009 £m	2008 £m
Gross property income		**123.8**	119.0
Development income		**–**	0.5
Other income		**1.5**	0.9
Total income	5	**125.3**	120.4
Property outgoings		**(10.5)**	(14.6)
Reverse surrender premium		**–**	(8.3)
Write-down of trading property		**–**	(2.0)
Total property outgoings	6	**(10.5)**	(24.9)
Net property income		**114.8**	95.5
Administrative expenses		**(20.0)**	(18.3)
Movement in valuation of cash-settled share options		**(1.6)**	1.6
Total administrative expenses		**(21.6)**	(16.7)
Revaluation deficit		**(81.1)**	(602.1)
(Loss)/profit on disposal of investment properties	7	**(16.6)**	1.2
Loss from operations		**(4.5)**	(522.1)
Finance income	8	**2.0**	1.7
Foreign exchange gain	8	**3.6**	–
Total finance income	8	**5.6**	1.7
Finance costs	8	**(39.0)**	(48.9)
Foreign exchange loss	8	**–**	(8.3)
Total finance costs	8	**(39.0)**	(57.2)
Movement in fair value of derivative financial instruments		**3.9**	(28.1)
Share of results of joint ventures	9	**(0.9)**	(0.8)
Loss before tax	10	**(34.9)**	(606.5)
Tax credit	15	**9.4**	9.3
Loss for the year		**(25.5)**	(597.2)
Attributable to:			
Equity shareholders	31	**(26.8)**	(586.4)
Minority interest		**1.3**	(10.8)
Loss per share	16	**(26.59)p**	(581.99)p
Diluted loss per share	16	**(26.59)p**	(581.99)p

The notes on pages 73 to 101 form part of these financial statements.

Statements of comprehensive income

for the year ended 31st December 2009

	2009 £m	2008 £m
Group		
Loss for the year	**(25.5)**	(597.2)
Actuarial losses on defined benefit pension scheme	**(0.2)**	(2.1)
Foreign currency translation	**(3.6)**	8.2
Other comprehensive (expense)/income	**(3.8)**	6.1
Total comprehensive expense relating to the year	**(29.3)**	(591.1)
Attributable to:		
Equity shareholders	**(30.6)**	(580.3)
Minority interest	**1.3**	(10.8)
Company		
Loss for the year	**(67.0)**	(260.2)
Actuarial losses on defined benefit pension scheme	**(0.2)**	(2.1)
Other comprehensive expense	**(0.2)**	(2.1)
Total comprehensive expense relating to the year	**(67.2)**	(262.3)

The notes on pages 73 to 101 form part of these financial statements.

Balance sheets

as at 31st December 2009

	Note	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Non-current assets					
Investment property	17	**1,888.6**	2,068.1	**–**	–
Property, plant and equipment	18	**1.4**	1.2	**0.6**	0.4
Investments	19	**6.4**	7.6	**569.9**	621.5
Deferred tax asset	28	**–**	–	**1.6**	0.3
Pension scheme surplus	14	**0.8**	1.0	**0.8**	1.0
Other receivables	20	**38.9**	29.0	**–**	–
		1,936.1	2,106.9	**572.9**	623.2
Current assets					
Trading properties	21	**1.0**	7.5	**–**	–
Trade and other receivables	22	**46.6**	38.7	**634.3**	698.0
Corporation tax asset		**–**	–	**–**	5.7
Cash and cash equivalents		**19.0**	10.5	**–**	–
		66.6	56.7	**634.3**	703.7
Non-current assets held for sale	23	**–**	17.5	**–**	–
		66.6	74.2	**634.3**	703.7
Total assets		**2,002.7**	2,181.1	**1,207.2**	1,326.9
Current liabilities					
Bank overdraft and loans	26	**5.9**	106.6	**5.4**	104.3
Trade and other payables	24	**59.0**	47.6	**267.8**	161.7
Corporation tax liability		**5.4**	7.1	**1.6**	–
Derivative financial instruments	26	**1.6**	–	**1.6**	–
Provisions	25	**0.2**	0.2	**0.2**	0.2
		72.1	161.5	**276.6**	266.2
Non-current liabilities					
Borrowings	26	**736.5**	769.3	**292.5**	329.4
Derivative financial instruments	26	**21.4**	26.9	**7.8**	12.1
Provisions	25	**2.9**	1.2	**0.8**	0.7
Deferred tax liability	28	**5.9**	7.2	**–**	–
		766.7	804.6	**301.1**	342.2
Total liabilities		**838.8**	966.1	**577.7**	608.4
Total net assets		**1,163.9**	1,215.0	**629.5**	718.5
Equity					
Share capital	29	**5.0**	5.0	**5.0**	5.0
Share premium	30	**156.9**	156.2	**156.9**	156.2
Other reserves	30	**916.8**	923.4	**331.2**	379.2
Retained earnings	30	**48.5**	95.0	**136.4**	178.1
Equity shareholders' funds	31	**1,127.2**	1,179.6	**629.5**	718.5
Minority interest		**36.7**	35.4	**–**	–
Total equity		**1,163.9**	1,215.0	**629.5**	718.5

The financial statements were approved by the board of directors and authorised for issue on 17th March 2010.

J.D. Burns,
Director

D.M.A. Wisniewski,
Director

The notes on pages 73 to 101 form part of these financial statements.

Statements of changes in equity

for the year ended 31st December 2009

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Group							
At 1st January 2009	5.0	156.2	923.4	95.0	1,179.6	35.4	1,215.0
Total comprehensive expense for the year	–	–	(3.6)	(27.0)	(30.6)	1.3	(29.3)
Share-based payments expense transferred to reserves	–	–	2.2	–	2.2	–	2.2
Transfer between reserves in respect of share-based payments	–	–	(5.2)	5.2	–	–	–
Premium on issue of shares	–	0.7	–	–	0.7	–	0.7
Dividends paid	–	–	–	(24.7)	(24.7)	–	(24.7)
At 31st December 2009	**5.0**	**156.9**	**916.8**	**48.5**	**1,127.2**	**36.7**	**1,163.9**
At 1st January 2008	5.0	157.0	914.0	706.0	1,782.0	59.9	1,841.9
Total comprehensive expense for the year	–	–	8.2	(588.5)	(580.3)	(10.8)	(591.1)
Share-based payments expense transferred to reserves	–	–	1.2	–	1.2	–	1.2
Transfer between reserves in respect of performance share plan	–	(0.8)	–	0.8	–	–	–
Purchase of minority interest	–	–	–	–	–	(0.4)	(0.4)
Dividends paid	–	–	–	(23.3)	(23.3)	(13.3)	(36.6)
At 31st December 2008	5.0	156.2	923.4	95.0	1,179.6	35.4	1,215.0
Company							
At 1st January 2009	5.0	156.2	379.2	178.1	718.5	–	718.5
Total comprehensive expense for the year	–	–	–	(67.2)	(67.2)	–	(67.2)
Share-based payments expense transferred to reserves	–	–	2.2	–	2.2	–	2.2
Premium on issue of shares	–	0.7	–	–	0.7	–	0.7
Transfer between reserves in respect of share-based payments	–	–	(5.2)	5.2	–	–	–
Transfer between reserves†	–	–	(45.0)	45.0	–	–	–
Dividends paid	–	–	–	(24.7)	(24.7)	–	(24.7)
At 31st December 2009	**5.0**	**156.9**	**331.2**	**136.4**	**629.5**	**–**	**629.5**
At 1st January 2008	5.0	157.0	714.3	126.6	1,002.9	–	1,002.9
Total comprehensive expense for the year	–	–	–	(262.3)	(262.3)	–	(262.3)
Share-based payments expense transferred to reserves	–	–	1.2	–	1.2	–	1.2
Transfer between reserves in respect of performance share plan	–	(0.8)	–	0.8	–	–	–
Transfer between reserves†	–	–	(336.3)	336.3	–	–	–
Dividends paid	–	–	–	(23.3)	(23.3)	–	(23.3)
At 31st December 2008	5.0	156.2	379.2	178.1	718.5	–	718.5

The notes on pages 73 to 101 form part of these financial statements.

† £45.0m (2008: £336.3m) relating to the impairment of the investment in LMS in the company has been transferred from other reserves to retained earnings.

Cash flow statements

for the year ended 31st December 2009

	Note	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Operating activities					
Cash received from tenants		**125.4**	109.6	**–**	–
Development income received		**–**	14.1	**–**	–
Direct property expenses		**(10.2)**	(22.8)	**–**	–
Cash paid to and on behalf of employees		**(11.4)**	(10.3)	**(11.4)**	(9.9)
Other administrative expenses		**(5.7)**	(5.9)	**(4.7)**	(4.8)
Interest received		**1.6**	2.9	**0.9**	0.2
Interest paid		**(40.7)**	(48.5)	**(13.1)**	(22.9)
Other income		**1.0**	–	**0.7**	–
Disposal of trading property		**6.5**	–	**–**	–
Tax paid in respect of operating activities		**(0.1)**	(0.8)	**–**	–
Net cash from/(used in) operating activities		**66.4**	38.3	**(27.6)**	(37.4)
Investing activities					
Acquisition of investment properties		**(10.2)**	(31.9)	**–**	–
Capital expenditure on investment properties		**(94.6)**	(72.9)	**–**	–
Disposal of investment properties		**195.5**	72.6	**–**	–
Purchase of property, plant and equipment		**(0.4)**	(0.2)	**(0.4)**	(0.1)
Disposal of property, plant and equipment		**–**	0.2	**–**	0.1
Distributions received from joint ventures		**0.5**	–	**–**	–
Sale of investment in subsidiary undertaking		**–**	–	**0.9**	–
Advances to minority interest holder		**–**	(4.2)	**–**	–
Purchase of minority interest		**–**	(0.4)	**–**	–
REIT conversion charge		**–**	(53.6)	**–**	(53.6)
Tax received/(paid) in respect of investing activities		**6.6**	(8.1)	**8.0**	(8.1)
Net cash from/(used in) investing activities		**97.4**	(98.5)	**8.5**	(61.7)
Financing activities					
Net movement in intercompany loans		**–**	–	**178.6**	66.0
Net movement in revolving bank loans		**(134.0)**	86.2	**(140.0)**	55.0
Repayment of non-revolving bank loans		**–**	(28.0)	**–**	–
Drawdown of non-revolving bank loans		**1.9**	56.8	**1.9**	28.8
Repayment of loan notes		**(1.9)**	(28.8)	**(1.9)**	(28.8)
Net proceeds of share issues	29	**0.7**	–	**0.7**	–
Dividends paid to minority interest holder		**–**	(1.0)	**–**	–
Dividends paid	32	**(24.3)**	(22.5)	**(24.3)**	(22.5)
Net cash (used in)/from financing activities		**(157.6)**	62.7	**15.0**	98.5
Increase/(decrease) in cash and cash equivalents in the year		**6.2**	2.5	**(4.1)**	(0.6)
Cash and cash equivalents at the beginning of the year		**6.9**	4.4	**(1.3)**	(0.7)
Cash and cash equivalents at the end of the year	33	**13.1**	6.9	**(5.4)**	(1.3)

The notes on pages 73 to 101 form part of these financial statements.

Notes to the financial statements

for the year ended 31st December 2009

1 Basis of preparation

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

The principal accounting policies are described in note 2. The accounting policies are consistent with those applied in the year ended 31st December 2008 as amended to reflect the adoption of the following new standards, amendments and interpretations which are mandatory for the year ended 31st December 2009.

IFRS 2	Share-based Payment – amendment (effective from 1st January 2009)
IFRS 7	Financial Instruments: Disclosures – amendment (effective from 1st July 2009)
IFRS 8	Operating Segments (effective from 1st January 2009)
IAS 1	Presentation of Financial Statements – amendment (effective from 1st January 2009)
IAS 23	Borrowing Costs – amendment (effective from 1st January 2009)

Improvements to IFRS issued in 2008

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.

IFRS 3	Business Combinations – revised (effective from 1st July 2009)
IAS 27	Consolidated and Separate Financial Statements – amendment (effective from 1st July 2009)
IAS 32	Financial Instruments – amendment (effective from 1st July 2009)
IAS 39	Financial Instruments: Recognition and Measurement – amendment (effective from 1st July 2009)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1st July 2009)
IFRIC 18	Transfer 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. The following standards have been issued but not yet endorsed by the European Union at the date these accounts were signed:

IFRS 2	Share-based Payment – amendment
IFRS 9	Financial Instruments
IAS 24	Related Party Disclosures – revised
IFRIC 14/ IAS 19	Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendments
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Improvements to IFRS issued 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.

2 Significant accounting policies (continued)

Gross property income

Gross property income arises from two main sources:

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

Rental income is recognised in the group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives 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) Reverse surrender premiums – Payments made to tenants to surrender their lease obligations are charged directly to the group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

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

Employee benefits

(i) Share-based remuneration

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

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

(ii) Pensions

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

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

Business combinations

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

2 Significant accounting policies (continued)

Investment property

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

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

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

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

(iv) Development – When the group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is 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.

Property, plant and equipment

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

Investments

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

Non-current assets held for sale

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

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

Trading properties

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

Financial assets

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

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

Financial liabilities

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

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

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

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

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

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

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 included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

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

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

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

3 Significant 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.

Estimated compulsory purchase proceeds
During 2009, compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to three of the group's investment properties. The proceeds recognised in respect of these properties are the directors' best estimates of the amounts to be received.

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.

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; and
- at least 90% of the tax exempt business must be distributed.

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

4 Segmental information

The group has adopted IFRS 8, Operating Segments, with effect from 1st January 2009. IFRS 8 requires operating segments to be identified on the basis of internal financial reports about components of the group that are regularly reviewed by the chief operating decision maker (which in the group's case is its executive board comprising the six executive directors) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the group's executive board contain financial information at a group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for recurring earnings per share, adjusted net asset value and recurring profit. Reconciliations of each of these figures to their statutory equivalents are detailed in notes 16, 34 and 35, respectively. Additionally, information is provided to the executive board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The group's investment property portfolio comprises 91% offices* by value. The directors consider that these properties have similar types of tenants, they demonstrate similar long-term financial performance and have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 9% represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the directors are of the view that it is appropriate to disclose two reportable segments, 'offices' and 'other', by reference to gross property income and investment property value.

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

Investment property (see note 17)

	Carrying value		Fair value	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Offices	**1,709.3**	1,897.0	**1,736.4**	1,917.6
Other	**179.3**	188.6	**182.0**	190.4
	1,888.6	2,085.6	**1,918.4**	2,108.0

Gross property income

	2009 £m	2008 £m
Offices	**114.3**	109.2
Other	**9.5**	9.8
	123.8	119.0

All of the group's investment properties are based in the UK. The group also owns a joint venture in Prague which represents 0.2% of the group's assets (see note 42). No geographical grouping is contained in any of the internal financial reports provided to the group's executive board. Therefore, no geographical segmental analysis is required by IFRS 8. However, the following analysis is included to provide users with additional information regarding the geographical areas contained in the business review.

Investment property

	Carrying value		Fair value	
	2009 £m	2008 £m	**2009 £m**	2008 £m
West End central	**1,284.8**	1,421.4	**1,299.1**	1,429.6
West End borders	**121.4**	117.5	**121.7**	117.8
City borders	**392.5**	413.6	**405.5**	425.5
Provincial	**89.9**	133.1	**92.1**	135.1
	1,888.6	2,085.6	**1,918.4**	2,108.0

Gross property income

	2009 £m	2008 £m
West End central	**78.4**	74.0
West End borders	**7.9**	8.1
City borders	**29.2**	27.6
Provincial	**8.3**	9.3
	123.8	119.0

5 Income

Gross property income includes surrender premiums received from tenants during 2009 of £0.1m (2008: £0.2m). The balance of £123.7m (2008: £118.8m) is derived solely from rental income from the group's properties. Of these amounts, £4.2m (2008: £4.2m) was derived from a lease to BT of the Angel Building, EC1, where in March 2007, the group entered into an arrangement with BT to restructure the lease arrangements such that the group could obtain possession of the building whilst maintaining rental income from BT until March 2010 (albeit that, if the group disposed of this property, the right to that rental income would pass to the purchaser). The group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments).

In 2008, development income of £0.5m was received which was 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. No development income was received during 2009.

Other income of £1.5m (2008: £0.9m) relates to fees and commissions earned in relation to the management of the group's properties and is recognised in the group income statement in accordance with the delivery of services.

6 Property outgoings

	2009 £m	2008 £m
Ground rents	**0.7**	0.7
Reverse surrender premium	**–**	8.3
Write-down of trading property	**–**	2.0
Other property costs	**9.8**	13.9
	10.5	24.9

Property outgoings include £0.1m (2008: £0.1m) of costs relating to properties which produced no property income during the year.

7 (Loss)/profit on disposal of investment property

	2009 £m	2008 £m
Disposal proceeds	**201.8**	72.6
Carrying value	**(216.0)**	(71.4)
Adjustment for rents recognised in advance	**(2.4)**	–
	(16.6)	1.2

During 2009, compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to three of the group's investment properties. The final value to be received in respect of these properties has yet to be determined and, therefore, the disposal proceeds included above for these properties are the directors' best estimates of the amounts to be received.

8 Finance income and costs

	2009 £m	2008 £m
Finance income		
Interest on development funding	**0.9**	0.1
Return on pension plan assets	**0.6**	0.8
Bank interest received	**0.1**	–
Other	**0.4**	0.8
	2.0	1.7
Foreign exchange gain	**3.6**	–
Total finance income	**5.6**	1.7
Finance costs		
Bank loans and overdraft wholly repayable within five years	**23.7**	35.3
Bank loans not wholly repayable within five years	**3.4**	0.8
Loan notes	**0.1**	0.9
Secured bonds	**10.7**	10.8
Finance leases	**0.6**	0.6
Pension interest costs	**0.5**	0.5
	39.0	48.9
Foreign exchange loss	**–**	8.3
Total finance costs	**39.0**	57.2

The foreign exchange gain of £3.6m (2008: £8.3m loss) resulted from the translation of an inter-company loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement is minimal as there is an offsetting entry in equity (see group statement of comprehensive income).

9 Share of results of joint ventures

	2009 £m	2008 £m
Revaluation deficit	**(1.3)**	(1.3)
Other profit from operations after tax	**0.4**	0.5
	(0.9)	(0.8)

See notes 19 and 42 for further details of the group's joint ventures.

10 Loss before tax

	2009 £m	2008 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.2**	0.2
Contingent rent payable under property finance leases	**0.7**	0.7
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
Other services	**0.1**	–

11 Directors' emoluments

	2009 £m	2008 £m
Remuneration for management services	**4.0**	2.6
Adjustment in respect of prior years' incentive schemes	**0.3**	0.4
Non-executive directors' remuneration	**0.5**	0.5
Gain on exercise of share options	**1.0**	1.0
Pension contributions	**0.4**	0.5
	6.2	5.0
National insurance contributions	**1.1**	0.3
	7.3	5.3

Included within the figures shown in note 12 below are amounts recognised in the group income statement, in accordance with IFRS 2, Share-based Payment, relating to the directors. These are an expense of £1.9m (2008: £1.4m) and a charge of £1.6m (2008: £1.6m credit) 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 55 to 62. The only key management personnel are the directors.

12 Employees

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Staff costs, including those of directors:				
Wages and salaries	**8.9**	7.4	**8.9**	7.1
Social security costs	**1.3**	1.0	**1.3**	1.0
Pension costs	**1.0**	0.9	**1.0**	0.7
Share-based payments expense relating to equity-settled schemes	**2.0**	1.5	**2.0**	1.5
Share-based payments charge/(credit) relating to cash-settled schemes	**1.6**	(1.6)	**–**	–
	14.8	9.2	**13.2**	10.3

The average number of employees in the group during the year, excluding directors, was 68 (2008: 60). The average number of employees in the company during the year, excluding directors, was 64 (2008: 56). All were employed in administrative roles.

13 Share-based payments

Details of the options held by directors and employees under the group's share option schemes are given in the report on directors' remuneration on pages 55 to 62.

Group and company – equity-settled option scheme

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled option scheme operated by the group. No options were granted during 2008. This is a new scheme separate to the performance share plan and other option schemes as disclosed in the directors remuneration report on pages 55 to 62. The directors are not entitled to any awards under this scheme.

	2009	2008
Option pricing model used	**Binomial lattice**	–
Share price at date of grant	**£6.10**	–
Exercise price	**£6.10**	–
Number granted	**69,500**	–
Number lapsed in the year	**5,000**	–
Contractual life	**10 years**	–
Risk free interest rate	**2.7%**	–
Volatility	**37%**	–
Dividend yield	**4.0%**	–

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

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

There were 64,500 options exercisable at 31st December 2009 (2008: nil).

Group – cash-settled option scheme

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

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31st December 2009 of £13.20 (2008: £7.25) and a dividend yield of 1.9% (2008: 3%) were used together with risk-free interest rates of between 0.5% and 2.3% (2008: between 1.7% and 2.6%) 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 58% pa, 49% pa and 40% pa (2008: 48% pa, 38% pa and 31% pa) 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 2009, and the fact that the expected lives of the options are relatively short, the fair values are not sensitive to this assumption. It has been assumed that employees try to maximise their returns and therefore do not exercise their options immediately, but tend to exercise their options later at the financially optimal date.

14 Pension costs

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

Defined contribution plan

The total expense relating to this plan in the current year was £0.9m (2008: £0.7m).

Defined benefit plan

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

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 7.1% pa (2008: 6.75% pa) and that salaries will be increased at 5.0% pa (2008: 4.4% pa). The market value of assets of the scheme at 31st December 2009 was £10.7m (2008: £8.7m) and the actuarial value of those assets on an ongoing basis represented 108% (2008: 113%) of the benefit of £9.9m (2008: £7.7m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.8m (2008: £1.0m).

14 Pension costs (continued)

Defined benefit obligations

	2009 £m	2008 £m
Present value of funded obligations	**(9.9)**	(7.7)
Fair value of plan assets	**10.7**	8.7
Recognised surplus for defined benefit obligations	**0.8**	1.0

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

	2009 £m	2008 £m
Net surplus for defined benefit obligation at 1st January	**1.0**	2.8
Net return	**–**	0.3
Actuarial losses recognised in reserves	**(0.2)**	(2.1)
Net surplus for defined benefit obligations at 31st December	**0.8**	1.0

Expense recognised in the income statement

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

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

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

Change in the fair value of plan assets

	2009 £m	2008 £m
At 1st January	**8.7**	11.6
Expected return	**0.6**	0.8
Total contributions	**0.1**	0.1
Benefits paid	**–**	(0.4)
Actuarial gains/(losses)	**1.3**	(3.4)
At 31st December	**10.7**	8.7

The actual return on the plan assets for the year was £1.9m (2008: £(2.6)m). 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

	2009 £m	2008 £m
At 1st January	**7.7**	8.8
Service cost	**0.1**	0.1
Interest cost	**0.5**	0.5
Benefits paid	**–**	(0.4)
Actuarial gains	**1.6**	(1.3)
At 31st December	**9.9**	7.7

14 Pension costs (continued)

Experience gains and losses

	2009 £m	2008 £m
Experience gains/(losses) on plan assets	**1.3**	(3.4)
Experience gains on plan liabilities	**(1.6)**	(1.3)

Analysis of plan assets

	2009 £m	2008 £m
Equities	**9.3**	6.6
Bonds	**1.0**	1.3
Property	**–**	0.1
Cash	**0.4**	0.7
Total	**10.7**	8.7

Principal actuarial assumptions

	2009 % pa	2008 % pa
Discount rate at 31st December	**5.7**	6.3
Expected return on plan assets at 31st December	**7.1**	6.8
Future salary increases	**5.0**	4.4
Inflation	**3.5**	2.9
Future pension increases	**5.0**	5.0

15 Tax credit

	2009 £m	2008 £m
Corporation tax credit		
UK corporation tax and income tax on profit for the year	**(2.6)**	(1.4)
Utilisation of losses from prior years	**11.1**	7.1
Other	**(0.4)**	–
	8.1	5.7
Deferred tax credit		
Origination and reversal of temporary differences	**1.7**	3.6
Adjustment for changes in estimates	**(0.4)**	–
	1.3	3.6
	9.4	9.3

Within the utilisation of losses from prior years of £11.1m (2008: £7.1m) is £11.9m of losses (2008: £3.4m) which were not recognised in prior years due to the uncertainty of their availability.

The effective rate of tax for 2009 is lower (2008: lower) than the standard rate of corporation tax in the UK.
The differences are explained below:

	2009 £m	2008 £m
Loss before tax	**(34.9)**	(606.5)
Expected tax credit based on the standard rate of corporation tax in the UK of 28.0% (2008: 28.5%)	**9.8**	172.9
Difference between tax and accounting profit on disposals	**(8.5)**	(0.6)
REIT exempt income	**8.2**	4.0
Expenses and fair value adjustments not (allowable)/deductible for tax purposes	**4.0**	(5.3)
Revaluation deficit attributable to REIT properties	**(19.7)**	(171.6)
Capital allowances	**4.6**	3.9
Other differences	**(0.1)**	(1.1)
Tax charge/(credit) on current year's loss	**(1.7)**	2.2
Adjustments in respect of prior years' tax	**11.1**	7.1
	9.4	9.3

16 (Loss)/earnings per share

	Loss for the year £m	Weighted average number of shares '000	Loss per share p
Year ended 31st December 2009	(26.8)	100,802	**(26.59)**
Adjustment for dilutive share-based payments	–	–	**–**
Diluted	(26.8)	100,802	**(26.59)**
Year ended 31st December 2008	(586.4)	100,758	(581.99)
Adjustment for dilutive share-based payments	–	–	–
Diluted	(586.4)	100,758	(581.99)

The diluted loss per share for the year to 31st December 2009 has been restricted to a loss of 26.59p per share (2008: 581.99p loss), as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share. At 31st December 2009, there were 597,244 share options and contingently issuable shares (2008: 435,000) which could potentially dilute earnings in the future.

	(Loss)/ profit for the year £m	Weighted average number of shares '000	(Loss)/ earnings per share p
Year ended 31st December 2009	(26.8)	100,802	**(26.59)**
Adjustment for:			
Disposal of properties	16.6	–	**16.47**
Group revaluation deficit	80.3	–	**79.66**
Joint venture revaluation deficit	1.3	–	**1.29**
Fair value movement in derivative financial instruments	(3.9)	–	**(3.87)**
Prior year tax relating to capital items	(11.1)	–	**(11.01)**
Minority interests in respect of the above	(0.4)	–	**(0.40)**
Recurring	56.0	100,802	**55.55**
Adjustment for dilutive share-based payments	–	597	**(0.32)**
Diluted recurring and diluted EPRA	56.0	101,399	**55.23**
Year ended 31st December 2008	(586.4)	100,758	(581.99)
Adjustment for:			
Disposal of properties	(1.2)	–	(1.19)
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)
Prior year tax relating to capital items	(5.0)	–	(4.96)
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
Adjustment for development income	0.5	–	0.49
Diluted EPRA	23.5	101,193	23.22

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, development income and any exceptional costs and income in order to show the underlying trend.

17 Investment property

	Freehold £m	Leasehold £m	Total £m
Group			
Carrying value			
At 1st January 2009	1,722.5	363.1	2,085.6
Acquisitions	–	9.8	9.8
Capital expenditure	80.2	11.3	91.5
Additions	80.2	21.1	101.3
Disposals	(207.9)	(8.1)	(216.0)
Revaluation	(57.0)	(24.1)	(81.1)
Movement in grossing up of headlease liabilities	–	(1.2)	(1.2)
At 31st December 2009	**1,537.8**	**350.8**	**1,888.6**
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
Adjustments from fair value to carrying value			
At 31st December 2009			
Fair value	1,573.3	345.1	1,918.4
Adjustment for rents recognised in advance	(35.5)	(1.7)	(37.2)
Adjustment for grossing up of headlease liabilities	–	7.4	7.4
Carrying value	**1,537.8**	**350.8**	**1,888.6**
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

The investment properties were revalued at 31st December 2009 by external valuers, on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued properties to a value of £1,889.9m (2008: £2,079.6m); other valuers, £28.5m (2008: £28.4m).

At 31st December 2009, the historical cost of investment property owned by the group was £1,894.8m (2008: £2,054.5m).

18 Property, plant and equipment

	2009 £m	2008 £m
Group		
At 1st January	**1.2**	1.4
Additions	**0.4**	0.2
Disposals	**–**	(0.2)
Depreciation	**(0.2)**	(0.2)
At 31st December	**1.4**	1.2
Net book value		
Cost or valuation	**3.4**	3.0
Accumulated depreciation	**(2.0)**	(1.8)
	1.4	1.2

	2009 £m	2008 £m
Company		
At 1st January	**0.4**	0.4
Additions	**0.4**	0.1
Depreciation	**(0.2)**	(0.1)
At 31st December	**0.6**	0.4
Net book value		
Cost or valuation	**1.7**	1.3
Accumulated depreciation	**(1.1)**	(0.9)
	0.6	0.4

19 Investments

Group

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

	2009 £m	2008 £m
At 1st January	**7.6**	5.1
Additions	**0.2**	0.3
Transfer from non-current assets held for sale	**–**	3.4
Distributions received	**(0.5)**	(0.4)
Share of results of joint ventures (see note 9)	**(0.9)**	(0.8)
At 31st December	**6.4**	7.6

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

	2009 £m	2008 £m
Non-current assets	**17.2**	18.6
Current assets	**1.7**	2.2
Current liabilities	**(4.4)**	(5.2)
Non-current liabilities	**(8.1)**	(8.0)
Net assets	**6.4**	7.6
Income	**2.2**	1.1
Expenses	**(3.1)**	(1.9)
Loss for the year	**(0.9)**	(0.8)

19 Investments (continued)

	Subsidiaries £m	Joint ventures £m	Total £m
Company			
Shares in subsidiaries:			
At 1st January 2008	956.9	–	956.9
Impairment	(336.3)	–	(336.3)
At 31st December 2008	620.6	–	620.6
Additions	4.1	–	4.1
Disposals	(6.2)	–	(6.2)
Impairment	(49.0)	–	(49.0)
At 31st December 2009	569.5	–	569.5
Loans:			
At 1st January 2008 and 31st December 2008	–	0.9	0.9
Repayment	–	(0.5)	(0.5)
	–	0.4	0.4
At 31st December 2009	**569.5**	**0.4**	**569.9**
At 31st December 2008	620.6	0.9	621.5

At 31st December 2009 and 31st December 2008, 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 £49.0m (2008: £336.3m). Of this amount, £45.0m relates to the investment in London Merchant Securities Ltd. This amount is transferred from retained earnings to the merger reserve within other reserves. The remaining £4.0m relates to two of the company's other investments and remains within retained earnings.

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

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

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

20 Other receivables (non-current)

	Group 2009 £m	2008 £m	**Company 2009 £m**	2008 £m
Accrued income	**34.2**	29.0	**–**	–
Other	**4.7**	–	**–**	–
	38.9	29.0	**–**	–

21 Trading properties

During the year ended 31st December 2009, £6.5m (2008: £nil) of trading properties were disposed of by the group at book value. At 31st December 2008, trading properties were written down by £2.0m to their net realisable value. There was no such writedown at 31st December 2009.

22 Trade and other receivables

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Trade receivables	**11.9**	14.9	**–**	–
Amounts owed by subsidiaries	**–**	–	**631.1**	696.9
Other receivables	**10.5**	12.2	**0.2**	0.1
Prepayments	**13.2**	7.1	**2.1**	1.0
Sales and social security taxes	**–**	–	**0.6**	–
Accrued income	**11.0**	4.5	**0.3**	–
	46.6	38.7	**634.3**	698.0

	2009 £m	2008 £m
Group trade receivables are split as follows:		
less than three months due	**10.0**	13.7
between three and six months due	**1.7**	0.2
between six and twelve months due	**0.2**	1.0
	11.9	14.9

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

	2009 £m	2008 £m
At 1st January	**1.3**	1.2
Additions	**0.7**	0.8
Released	**(0.1)**	(0.7)
At 31st December	**1.9**	1.3
The provision for bad debts is split as follows:		
less than six months due	**0.4**	0.3
between six and twelve months due	**0.2**	0.1
over twelve months due	**1.3**	0.9
	1.9	1.3

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

23 Non-current assets held for sale

	2009 £m	2008 £m
Investment properties (note 17)	**–**	17.5

Compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to two of the group's freehold investment properties on 19th December 2008. 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 were recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale.

24 Trade and other payables

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Trade payables	**1.7**	2.3	**1.2**	0.3
Amounts owed to subsidiaries	**–**	–	**259.5**	154.3
Other payables	**7.8**	0.2	**0.2**	–
Sales and social security taxes	**1.9**	1.0	**–**	0.8
Accruals	**12.8**	10.6	**6.9**	6.3
Deferred income	**34.8**	33.5	**–**	–
	59.0	47.6	**267.8**	161.7

25 Provisions

	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	**2009 Total £m**	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2008 Total £m
Group								
At 1st January	0.5	0.6	0.3	**1.4**	2.1	0.7	0.5	3.3
Provided/(released) in the income statement	1.6	–	0.3	**1.9**	(1.6)	–	–	(1.6)
Utilised in year	–	(0.1)	(0.1)	**(0.2)**	–	(0.1)	(0.2)	(0.3)
At 31st December	2.1	0.5	0.5	**3.1**	0.5	0.6	0.3	1.4
Due within one year	–	0.1	0.1	**0.2**	–	0.1	0.1	0.2
Due after one year	2.1	0.4	0.4	**2.9**	0.5	0.5	0.2	1.2
	2.1	0.5	0.5	**3.1**	0.5	0.6	0.3	1.4
Company								
At 1st January	–	0.6	0.3	**0.9**	–	0.7	0.5	1.2
Provided in the income statement	–	–	0.3	**0.3**	–	–	–	–
Utilised in year	–	(0.1)	(0.1)	**(0.2)**	–	(0.1)	(0.2)	(0.3)
At 31st December	–	0.5	0.5	**1.0**	–	0.6	0.3	0.9
Due within one year	–	0.1	0.1	**0.2**	–	0.1	0.1	0.2
Due after one year	–	0.4	0.4	**0.8**	–	0.5	0.2	0.7
	–	0.5	0.5	**1.0**	–	0.6	0.3	0.9

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

- the market price of the company's shares at the date of exercise;
- the number of equity instruments that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

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

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

26 Borrowings and derivative financial instruments

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Current liabilities				
Bank loans	–	103.0	–	103.0
Overdraft	5.9	3.6	5.4	1.3
	5.9	106.6	5.4	104.3
Non-current liabilities				
6.5% Secured Bonds 2026	193.6	194.3	–	–
Loan notes	1.4	3.2	1.4	3.2
Bank loans	503.0	534.0	260.0	297.0
Unsecured loans	31.1	29.2	31.1	29.2
Leasehold liabilities	7.4	8.6	–	–
	736.5	769.3	292.5	329.4
Derivative financial instruments – expiring in less than one year	1.6	–	1.6	–
Derivative financial instruments – expiring in greater than one year	21.4	26.9	7.8	12.1
	23.0	26.9	9.4	12.1
Total liabilities	765.4	902.8	307.3	445.8

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Secured				
Bank loans	503.0	637.0	260.0	400.0
6.5% Secured Bonds 2026	193.6	194.3	–	–
	696.6	831.3	260.0	400.0
Unsecured				
Loan notes	1.4	3.2	1.4	3.2
Bank loans	31.1	29.2	31.1	29.2
Overdrafts	5.9	3.6	5.4	1.3
	38.4	36.0	37.9	33.7
Gross debt	735.0	867.3	297.9	433.7
Leasehold liabilities	7.4	8.6	–	–
Total debt	742.4	875.9	297.9	433.7
Cash and cash equivalents	(19.0)	(10.5)	–	–
Net debt	723.4	865.4	297.9	433.7

At 31st December 2009, £1,225.2m (2008: £1,338.0m) of the group's properties are subject to a fixed charge to secure the group's bank loans. In addition, the bonds are secured by a floating charge over certain of the group's companies, which contain £339.1m (2008: £337.3m) of the group's properties.

At 31st December 2009, £738.7m (2008: £753.9m) of the group's properties are subject to a fixed charge to secure the company's bank loans.

26 Borrowings and derivative financial instruments (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 anticipated undiscounted cash outflows arising from the group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31st December 2009							
Bank overdrafts	5.9	–	–	–	–	–	5.9
Bank loans	–	95.0	–	315.0	65.0	28.0	503.0
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Loan notes	–	–	1.4	–	–	–	1.4
Unsecured loans	–	–	31.1	–	–	–	31.1
Total on maturity	5.9	95.0	32.5	315.0	65.0	203.0	716.4
Leasehold liabilities	0.6	0.6	0.6	0.6	0.6	44.1	47.1
Interest on gross debt	22.1	28.2	30.0	22.2	14.0	133.0	249.5
Effect of interest rate swaps	13.3	7.7	3.3	–	(0.2)	(1.5)	22.6
Gross loan commitments	41.9	131.5	66.4	337.8	79.4	378.6	1,035.6
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 gross debt	37.9	39.3	39.9	39.5	20.1	141.1	317.8
Effect of interest rate swaps	8.9	6.8	3.8	3.5	1.4	2.2	26.6
Gross loan commitments	154.4	47.0	159.7	76.4	413.5	415.7	1,266.7

Reconciliation to total debt:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
At 31st December 2009						
Maturing in:						
< 1 year	41.9	(22.1)	(13.3)	(0.6)	–	5.9
1 to 2 years	131.5	(28.2)	(7.7)	(0.6)	–	95.0
2 to 3 years	66.4	(30.0)	(3.3)	(0.6)	–	32.5
3 to 4 years	337.8	(22.2)	–	(0.6)	–	315.0
4 to 5 years	79.4	(14.0)	0.2	(0.6)	–	65.0
> 5 years	378.6	(133.0)	1.5	(36.7)	18.6	229.0
	1,035.6	(249.5)	(22.6)	(39.7)	18.6	742.4
At 31st December 2008						
Maturing in:						
< 1 year	154.4	(37.9)	(8.9)	(1.0)	–	106.6
1 to 2 years	47.0	(39.3)	(6.8)	(0.9)	–	–
2 to 3 years	159.7	(39.9)	(3.8)	(1.0)	–	115.0
3 to 4 years	76.4	(39.5)	(3.5)	(1.0)	–	32.4
4 to 5 years	413.5	(20.1)	(1.4)	(1.0)	–	391.0
> 5 years	415.7	(141.1)	(2.2)	(60.8)	19.3	230.9
	1,266.7	(317.8)	(26.6)	(65.7)	19.3	875.9

26 Borrowings and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31st December 2009							
Bank overdrafts	5.4	–	–	–	–	–	5.4
Bank loans	–	95.0	–	100.0	65.0	–	260.0
Loan notes	–	–	1.4	–	–	–	1.4
Unsecured loans	–	–	31.1	–	–	–	31.1
Total on maturity	5.4	95.0	32.5	100.0	65.0	–	297.9
Interest on debt	5.8	9.1	7.9	6.8	1.0	–	30.6
Effect of interest rate swaps	5.2	2.2	0.8	0.1	0.1	–	8.4
Gross loan commitments	16.4	106.3	41.2	106.9	66.1	–	336.9
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	15.1	15.7	14.8	14.2	4.5	–	64.3
Effect of interest rate swaps	4.0	2.7	1.2	1.0	0.9	–	9.8
Gross loan commitments	123.4	18.4	131.0	47.6	187.4	–	507.8

There are no differences for the company in 2009 or 2008 between the total on maturity shown above and total debt.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31st December 2009	**–**	**105.0**	**–**	**260.0**	**60.0**	**–**	**425.0**
At 31st December 2008	22.0	–	85.0	–	184.0	–	291.0
Company							
At 31st December 2009	**–**	**105.0**	**–**	**100.0**	**60.0**	**–**	**265.0**
At 31st December 2008	22.0	–	85.0	–	18.0	–	125.0

Fixed interest rate and hedged debt

At 31st December 2009 and 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.

Secured Bonds 2026

On the acquisition of London Merchant Securities plc in 2007, 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 27 was determined by the mid-price of £101.31 per £100.00 as at 31st December 2009 (2008: £89.36 per £100.00). The carrying value at 31st December 2009 was £193.6m (2008: £194.3m).

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 2009 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 2009.

	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 2009						
Interest rate swaps	398.0	4.731	4.03	170.0	4.712	4.10
Interest rate cap	10.0	6.010	1.46	10.0	6.010	1.46
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

26 Borrowings and derivative financial instruments (continued)

Interest rate exposure

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
Group						
At 31st December 2009						
Bank overdrafts	5.9	–	–	5.9	2.50	–
Bank loans	95.0	408.0	–	503.0	4.65	2.93
6.5% Secured Bonds 2026[1]	–	–	193.6	193.6	6.50	16.22
Loan notes	1.4	–	–	1.4	–	2.09
Unsecured loans	31.1	–	–	31.1	1.36	2.47
	133.4	408.0	193.6	735.0	5.00	6.58
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[1]	–	–	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
Company						
At 31st December 2009						
Bank overdrafts	5.4	–	–	5.4	2.50	–
Bank loans	80.0	180.0	–	260.0	4.23	2.31
Loan notes	1.4	–	–	1.4	–	2.09
Unsecured loans	31.1	–	–	31.1	1.36	2.47
	117.9	180.0	–	297.9	4.02	3.07
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

[1] The weighted average cost of debt for the Secured Bonds is based on the nominal amount of £175.0m.

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

	2009 Receivable £m	**2009 Payable £m**	2008 Receivable £m	2008 Payable £m
Group				
Maturing in:				
< 1 year	**4.8**	**(18.1)**	8.9	(17.8)
1 to 2 years	**8.2**	**(15.9)**	9.5	(16.3)
2 to 3 years	**12.2**	**(15.5)**	10.2	(14.0)
3 to 4 years	**8.0**	**(8.0)**	10.2	(13.7)
4 to 5 years	**5.2**	**(5.0)**	4.8	(6.2)
> 5 years	**12.5**	**(11.0)**	8.6	(10.8)
Gross contractual cash flows	**50.9**	**(73.5)**	52.2	(78.8)
Company				
Maturing in:				
< 1 year	**2.0**	**(7.2)**	3.9	(7.9)
1 to 2 years	**2.8**	**(5.0)**	3.7	(6.4)
2 to 3 years	**4.0**	**(4.8)**	3.0	(4.2)
3 to 4 years	**4.7**	**(4.8)**	2.9	(3.9)
4 to 5 years	**3.9**	**(4.0)**	3.0	(3.9)
> 5 years	**6.9**	**(6.9)**	8.6	(8.6)
Gross contractual cash flows	**24.3**	**(32.7)**	25.1	(34.9)

27 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	–	19.0	–	19.0	19.0
Other assets – current [1]	–	33.4	–	33.4	33.4
	–	52.4	–	52.4	52.4
Financial liabilities					
Bank overdrafts	–	–	(5.9)	(5.9)	(5.9)
Borrowings due after one year	–	–	(542.9)	(542.9)	(542.9)
6.5% Secured Bonds 2026	–	–	(193.6)	(193.6)	(177.3)
Derivative financial instruments	(23.0)	–	–	(23.0)	(23.0)
Other liabilities – current [2]	–	–	(22.3)	(22.3)	(22.3)
	(23.0)	–	(764.7)	(787.7)	(771.4)
At 31st December 2009	**(23.0)**	**52.4**	**(764.7)**	**(735.3)**	**(719.0)**
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 financial instruments	(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)

[1] Other assets includes all amounts shown as trade and other receivables in note 22 except prepayments of £13.2m (2008: £7.1m) for the group and prepayments and sales and social security taxes of £2.7m (2008: £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 24 except deferred income of £34.8m (2008: £33.5m) and sales and social security taxes of £1.9m (2008: £1.0m). For the company, other liabilities represents trade and other payables, excluding £0.8m of sales and social security taxes in 2008. All amounts are non-interest bearing and are due within one year.

27 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]	–	631.6	–	631.6	631.6
	–	631.6	–	631.6	631.6
Financial liabilities					
Bank overdrafts	–	–	(5.4)	(5.4)	(5.4)
Borrowings due after one year	–	–	(292.5)	(292.5)	(292.5)
Derivative financial instruments	(9.4)	–	–	(9.4)	(9.4)
Other liabilities – current [2]	–	(259.5)	(8.3)	(267.8)	(267.8)
	(9.4)	(259.5)	(306.2)	(575.1)	(575.1)
At 31st December 2009	**(9.4)**	**372.1**	**(306.2)**	**56.5**	**56.5**
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 financial instruments	(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

[1&2] See page 93 for key.

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

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Net financial assets and liabilities	**(730.6)**	(873.8)	**56.5**	90.3
Other assets – current	**(38.1)**	(31.6)	**(661.9)**	(697.0)
Other liabilities – current	**22.3**	13.1	**160.9**	160.9
Cash and cash equivalents	**(19.0)**	(10.5)	**–**	–
Total net borrowings and derivatives	**(765.4)**	(902.8)	**(444.5)**	(445.8)

All the group's and company's financial liabilities designated at fair value through profit and loss are defined as level 2, in accordance with IFRS 7, as they are derived from inputs other than quoted prices which are observable from the liability. There have been no transfers between level 1 and level 2 in 2009 or 2008.

Financial instruments – risk management
The group is exposed through its operations to the following financial risks:

- credit risk;
- fair value or cash flow interest rate risk; and
- liquidity risk.

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. The following describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 42 and 53.

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.

27 Financial assets and liabilities (continued)

Financial instruments – risk management (continued)

Principal financial instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are trade receivables, cash at bank, bank overdrafts, trade and other payables, floating rate bank loans, secured bonds, interest rate swaps and interest rate caps.

General objectives, policies and processes

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

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

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from its lease contracts. It is group policy to assess the credit risk of new tenants before entering 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 predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

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

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

Market risk

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

Fair value and cash flow interest rate risk

The group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently group policy that between 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 2009 and 2008, the group's borrowings at variable rate were denominated in sterling.

The group monitors the interest rate exposure on a regular basis. A sensitivity analysis was performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates and this would result in an increase of £0.7m (2008: £1.4m) or a decrease of £0.7m (2008: £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 26). The group generally raises long-term borrowings at floating rates and swaps them into fixed.

Liquidity risk

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient headroom in its loan facilities to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain committed facilities to meet the expected requirements. The group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further explained in the 'fair value and cash flow interest rate risk' section above.

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

The group's loan facilities are spread across a range of UK banks so as to minimise any potential concentration of risk. The liquidity risk of the group is managed centrally by the finance department.

27 Financial assets and liabilities (continued)

Financial instruments – risk management (continued)

Capital disclosures

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

The group's objectives when maintaining capital are:

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

The group sets the amount of capital it requires in proportion to risk. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the group monitors capital on the basis of balance sheet gearing and property gearing. During 2009, the group's strategy, which was unchanged from 2008, was to maintain the balance sheet gearing below 80% in normal circumstances. As was identified in last year's annual report and accounts, the definition of profit and loss gearing has been changed in order to align it more closely to the group's most commonly used interest cover ratio covenant. These three gearing ratios are defined on page 108 and are derived below:

Balance sheet gearing

	2009 £m	2008 £m
Total debt	**742.4**	875.9
Less: cash and cash equivalents	**(19.0)**	(10.5)
Net debt	**723.4**	865.4
Net assets	**1,163.9**	1,215.0
Balance sheet gearing	**62.2%**	71.2%

Property gearing

	2009 £m	2008 £m
Net debt	**723.4**	865.4
Fair value adjustment to secured bonds	**(18.6)**	(19.3)
Leasehold liabilities	**(7.4)**	(8.6)
Drawn facilities	**697.4**	837.5
Fair value of investment property	**1,918.4**	2,108.0
Property gearing	**36.4%**	39.7%

Profit and loss gearing

	2009 £m	2008 £m
Gross property income	**123.8**	119.0
Surrender premiums	**(0.1)**	(0.2)
Ground rent	**(1.3)**	(1.3)
Net rental income	**122.4**	117.5
Net finance costs	**33.4**	55.5
Foreign exchange gain/(loss)	**3.6**	(8.3)
Net pension return	**0.1**	0.3
Finance lease cost	**(0.6)**	(0.6)
Non-cash amortisation*	**0.6**	0.6
Net interest payable	**37.1**	47.5
Profit and loss gearing	**330%**	247%

*Amortisation of bond fair value and issue costs.

28 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
Deferred tax liability			
At 1st January 2009	8.9	(1.7)	7.2
Provided during the year in the income statement	–	1.0	1.0
Released during the year in the income statement	(0.8)	(1.5)	(2.3)
At 31st December 2009	**8.1**	**(2.2)**	**5.9**
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
Company			
Deferred tax asset			
At 1st January 2009		0.3	0.3
Provided during the year in the income statement		1.3	1.3
At 31st December 2009		**1.6**	**1.6**
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

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.

At 31st December 2008, due to the uncertainty over their availability, £11.9m of tax losses were not recognised as a deferred tax asset. There were no such tax losses at 31st December 2009.

29 Equity

The authorised share capital was £6.04m at 1st January 2008, 31st December 2008 and 31st December 2009.

The number of 5p ordinary shares in issue at the year end was 100,950,263 (2008: 100,807,146). During the year, 105,250 shares (2008: no shares) were issued as a result of the exercise of share options which realised proceeds of £0.7m (2008: £nil) and 37,867 shares (2008: 103,952) 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 55 to 62 and note 13.

30 Reserves

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

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS). Fair value of equity instruments granted but not yet exercised under share-based payments. Foreign exchange reserve amounting to £4.0m at 31st December 2009 (2008: £7.6m) 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.

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

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. Loss for the year includes a loss of £67.0m (2008: £260.2m) which has been dealt with in the accounts of the company.

32 Dividend

	2009 £m	2008 £m
Final dividend of 16.35p (2008: 15.00p) per ordinary share declared during the year relating to the previous year's results	**16.5**	15.1
Interim dividend of 8.15p (2008: 8.15p) per ordinary share declared during the year	**8.2**	8.2
	24.7	23.3

Of the dividend of £24.7m (2008: £23.3m), £24.3m (2008: £22.5m) was paid in the current year, representing £0.8m (2008: £nil) withholding tax relating to the prior year and £23.5m (2008: £22.5m) relating to the current year dividend. Withholding tax relating to the current year of £1.3m (2008: £0.8m) will be 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 18.85p (2008: 16.35p) per ordinary share which would total £19.0m (2008: £16.5m). As required by IAS 10, Events after the Reporting Period, this dividend has not been accrued at the balance sheet date. This equates to a total dividend relating to the results for the year of 27.00p (2008: 24.50p).

33 Cash and cash equivalents

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Overdrafts	**(5.9)**	(3.6)	**(5.4)**	(1.3)
Short-term deposits	**19.0**	10.5	**–**	–
	13.1	6.9	**(5.4)**	(1.3)

34 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 2009					
Net assets	1,163.9	8.1	23.0	20.2	1,215.2
Minority interest	(36.7)	(0.3)	0.4	–	(36.6)
Net assets attributable to equity shareholders	1,127.2	7.8	23.4	20.2	1,178.6
Net asset value per share attributable to equity shareholders (p)	**1,117**	**8**	**23**	**20**	**1,168**
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

The number of issued and fully paid up ordinary shares in issue at 31st December 2009 was 100,950,263 (2008: 100,807,146).

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

Reconciliation to EPRA figures:

	2009 p	2008 p
Net asset value per share attributable to equity shareholders	**1,168**	1,226
Deduct: fair value adjustment to secured bonds	**(20)**	(21)
	1,148	1,205
Adjustment for dilutive share-based payments	**(7)**	(5)
Diluted EPRA net asset value per share	**1,141**	1,200

35 Recurring profit before tax

	2009 £m	2008 £m
Loss before tax	**(34.9)**	(606.5)
Adjustment for:		
Disposal of properties	**16.6**	(1.2)
Group revaluation deficit	**81.1**	602.1
Joint venture revaluation deficit	**1.3**	1.3
Fair value movement in derivative financial instruments	**(3.9)**	28.1
Development income	**–**	(0.5)
Recurring profit before tax	**60.2**	23.3
Adjustment for:		
Reverse surrender premium	**–**	8.3
Foreign exchange (gain)/loss	**(3.6)**	8.3
One-off rates credit	**(2.8)**	–
Movement in valuation of cash-settled share options	**1.6**	(1.6)
Adjusted recurring profit before tax	**55.4**	38.3

See page 108 for definitions of recurring profit before tax and adjusted recurring profit before tax.

36 Total return

	2009 %	2008 %
Total return	**(2.7)**	(30.6)

Total return is calculated from the movement in adjusted net asset value per share as derived in note 34 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.

37 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2009 and not provided for in the accounts amounted to £31.4m (2008: £85.4m). These contracts relate wholly to the construction, development or enhancement of the group's investment properties. At 31st December 2009 and 31st December 2008, there were no obligations for the purchase, repair or maintenance of investment properties.

38 Contingent liabilities

The company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2009 the maximum liability that could arise for the company from the cross guarantees amounted to £0.4m (2008: £2.3m). Up to the point when it was refinanced during 2009, the company guaranteed its share of the principal and interest payable under a loan to Primister Limited. The principal guaranteed under this loan was £nil at 31st December 2009 (2008: £2.8m) and the interest payable guaranteed was £nil (2008 : £0.3m pa).

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.

39 Post balance sheet events

There are no transactions which require disclosure in accordance with IAS 10, Events after the Reporting Date.

40 Leases

	2009 £m	2008 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**107.3**	123.1
later than one year and not later than five years	**302.4**	356.8
later than five years	**470.5**	561.7
	880.2	1,041.6

	2009 £m	2008 £m
Finance lease obligations		
Minimum lease payments under finance leases fall due:		
not later than one year	**0.6**	1.0
later than one year and not later than five years	**2.4**	3.9
later than five years	**44.1**	69.4
	47.1	74.3
Future contingent rent payable on finance leases	**(6.0)**	(22.3)
Future finance charges on finance leases	**(33.7)**	(43.4)
Present value of finance lease liabilities	**7.4**	8.6
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**0.1**	0.1
later than five years	**7.3**	8.5
	7.4	8.6

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

	2009 £m	2008 £m
Finance charge (see note 8)	**0.6**	0.6
Contingent rent (see note 10)	**0.7**	0.7
Total	**1.3**	1.3

The group has over 800 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 15 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs.

The weighted average lease length of the leases granted during 2009 was 8.9 years (2008: 13.9 years). 46% of these leases (2008: 56%) included a rent free period at the start of the lease, the weighted average being 5.0 months (2008: 10.7 months).

41 Related party transactions

Details of directors' remuneration are given in the report on directors' remuneration on pages 55 to 62 and note 11.
Other related party transactions are as follows:

Group

Messrs J.D. Burns and S.P. Silver are partners in The Pilcher Hershman Partnership (PHP), estate agents. The partnership occupied offices owned by the group for which they paid a commercial rent in the year of £0.1m (2008: £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 £0.3m (2008: £0.9m) during the year. Procedures have been established whereby the audit committee are able to verify that neither Messrs Burns nor Silver derive any direct benefit from these fees.

The Hon R.A. Rayne is a director of LMS Capital plc, an investment company, which occupies offices owned by the group for which they paid a commercial rent of £0.4m (2008: £0.4m). The group also contributed £0.1m (2008: £0.1m) to the company's running costs in the year.

During the year, the group paid fees at a commercial rate in respect of the acquisition of certain properties of £nil (2008: £0.1m) to Everton Philips LLP, a firm in which the son of Mr J.D. Burns is a partner, and £0.1m (2008: £nil) in respect of the disposal of certain properties to Hamilton Investment Properties Ltd, a company of which Mr S.P. Silver's son is a director.

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

At 31st December 2009, included within other receivables in note 22 is an amount owed by the Portman Estate, the minority owner of one of the group's subsidiaries, of £8.7m (2008: £8.7m). The majority of this amount represents advances to the Portman Estate, relating to proceeds received upon the disposal of jointly owned properties. This debt will be discharged by a distribution to shareholders.

41 Related party transactions (continued)

Company

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

	Dividend received		Balance owed/(owing)	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Related party				
Bramley Road Ltd	**–**	–	**–**	0.6
Derwent Valley Central Ltd	**–**	50.0	**251.9**	287.7
Derwent Valley London Ltd	**–**	–	**129.4**	131.3
Derwent Valley Property Developments Ltd	**–**	12.0	**55.9**	59.5
Derwent Valley Property Investments Ltd	**–**	–	**(3.5)**	(2.2)
Derwent Valley West End Ltd	**–**	–	**(1.9)**	–
Derwent Valley Property Trading Ltd	**–**	–	**(2.1)**	–
Derwent Valley Railway Company*	**–**	–	**(0.2)**	(0.2)
London Merchant Securities Ltd†	**8.6**	60.0	**(57.9)**	65.9
	8.6	122.0	**371.6**	542.6

* Dormant company.

† Balance owed includes subsidiaries which form part of the LMS sub-group.

The group has not made any provision for bad or doubtful debts in respect of related party debtors. Inter-company balances are repayable on demand. No interest is charged on inter-company balances.

During the year the company became the beneficial owner of the shares in LMS (Kingston) Ltd, a company within the LMS sub-group (see note 19 for further details). During the year the company also increased its investment in two of its subsidiaries: Derwent Valley West End Ltd, by £2.0m, and Derwent Valley Property Trading Ltd, by £2.1m.

42 Principal operating companies

The principal operating companies within the group at 31st December 2009 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
LMS Offices Limited	100%	Property investment
Palaville Limited	100%	Property investment
Rainram Investments Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Caledonian Properties Limited	100%	Property trading
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited*	100%	Holding company

* Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

Joint ventures		
Primister Limited	50%	Property investment
Euro Mall Sterboholy a.s.	25%	Property investment

The company controls 50% of the voting rights of each of the joint ventures. All are accounted for and disclosed in accordance with IAS 31, Interests in Joint Ventures.

All of the above companies are registered and operate in England and Wales except for Euro Mall Sterboholy a.s., which is registered in the Czech Republic.

Principal properties

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx net area m²
West End: Central (68%)				
Fitzrovia/Euston (25%)				
132-142 Hampstead Road, NW1	25-50	O/I	F	21,500
80 Charlotte Street, W1	50-75	O	F	18,600
Arup Phases II & III, 8 Fitzroy Street, W1	75+	O	F	13,700
Qube, 90 Whitfield Street, W1	75+	O/R/Re	F	10,000
95-100 Tottenham Court Road, W1	0-25	O/R	F	6,400
Middlesex House, 34-42 Cleveland Street, W1	25-50	O	F	6,000
88-94 Tottenham Court Road, W1	0-25	O/R	F	4,900
170 Tottenham Court Road, W1	0-25	O/R/Re	F	4,300
80-85 Tottenham Court Road, W1	25-50	O/R	F	4,100
60 Whitfield Street, W1	0-25	O	F	3,400
43 and 45-51 Whitfield Street, W1	0-25	O	F	2,800
120-134 Tottenham Court Road, W1[1]	25-50	R	F	2,700
53-65 Whitfield Street, W1	0-25	O	F	2,700
Victoria (13%)				
Horseferry House, Horseferry Road, SW1	75+	O	F	15,100
Greencoat and Gordon House, Francis Street, SW1	50-75	O	F	11,900
Riverwalk House, 157-166 Millbank, SW1	25-50	O	F	6,900
Premier House, 10 Greycoat Place, SW1	25-50	O	F	5,800
6-8 Greencoat Place, SW1	0-25	O	F	3,100
232-242 Vauxhall Bridge Road, SW1	0-25	O	F	2,100
Noho (8%)				
Holden House, 54-68 Oxford Street, W1	50-75	O/R	F	8,400
Henry Wood House, 3-7 Langham Place, W1	25-50	O/R	L	7,400
Charlotte Building, 17 Gresse Street, W1	25-50	O	L	4,400
75 Wells Street, W1	0-25	O	L	3,200
7-8, 9 and 10 Rathbone Place, W1	0-25	O/Re	L	2,200*
Soho/Covent Garden (7%)				
Bush House, South West Wing, Strand, WC2	0-25	O	F	10,000
Covent Garden Estate, WC2:	25-50	O/R	F	6,700
19-26 and 19a Floral Street				
26 and 27-32 King Street				
34 Rose Street				
Tower House, 10 Southampton Street, WC2	25-50	O/R	F	4,900
Davidson Building, 5 Southampton Street, WC2	25-50	O/R	F	3,900
Jaeger House, 57 Broadwick Street, W1	0-25	O/R	F	2,300
Belgravia (6%)				
Hyde Park Corner Estate, SW1	75+	O/Re	L	15,700
1 Grosvenor Place				
4 Grosvenor Place				
3-5 Pembroke Close				
Baker Street /Marylebone (5%)				
19-35 Baker Street, W1	25-50	O/R/Re	L	6,700
88-110 George Street, W1	0-25	O/R/Re	L	2,400
30 Gloucester Place, W1	0-25	O/Re	L	2,200
16-20 Baker Street and 27-33 Robert Adam Street, W1	0-25	O/R/Re	L	2,000
17-39 George Street, W1	0-25	O/R/Re	L	2,000
Mayfair (2%)				
25 Savile Row, W1	25-50	O/R	F	3,900
Paddington (2%)				
55-65 North Wharf Road, W2	0-25	O	L	7,800

	Value banding £m	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	50-75	O	F	24,400*
Balmoral Grove Buildings, N1 and 1-9 Market Road, N7	0-25	O/I	F	4,500
Suncourt House, 18-26 Essex Road, N1	0-25	O/R	F	2,500
2-12 Pentonville Road, N1	0-25	O	F	2,400
14 Pentonville Road, N1	0-25	O	F	1,700
Ladbroke Grove (1%)				
Portobello Dock and Kensal House, W10	0-25	O	F	5,000
City: Borders (21%)				
Old Street (6%)				
1 Oliver's Yard, EC2	50-75	O/R	F	17,200
City Road Estate, EC1:	0-25	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	0-25	O	F	3,900
186 City Road, EC1	0-25	O	F	3,600
210 Old Street, EC1	0-25	O	F	2,100
18-30 Leonard Street, EC2	0-25	–	F	Site
Clerkenwell (6%)				
88 Rosebery Avenue, EC1	25-50	O	F	9,500
Morelands Buildings, 5-27 Old Street, EC1	0-25	O/R	L	7,400
Woodbridge House, 30 Aylesbury Street, EC1	25-50	O	F	7,000
The Turnmill, 63 Clerkenwell Road, EC1	0-25	O	F	4,200
5-8 Hardwick Street and 161 Rosebery Avenue, EC1	0-25	O	F	3,300
151 Rosebery Avenue, EC1	0-25	O	F	2,300
Holborn (5%)				
The Johnson Building, 77 Hatton Garden, EC1	75+	O	F	14,100
40 Chancery Lane, WC2 and 20-21 Tooks Court, EC4	0-25	O	F/L	5,700
6-7 St. Cross Street, EC1	0-25	O	F	3,100
Shoreditch (4%)				
Tea Building, Shoreditch High Street, E1	50-75	O	F	23,000
60 Commercial Road, E1	0-25	O	F	2,800
Provincial (5%)				
Scotland (5%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	25-50	R	F	28,600
The Triangle Centre, Bishopbriggs, Glasgow	0-25	O/R	F	6,800
Land, Bishopbriggs, Glasgow	25-50	–	F	5,500 acres

[1] Includes a 324-room hotel.
* Proposed areas.
() Percentages weighted by valuation.

Development pipeline

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	1.6	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 300m² of retail space.
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*	1.0	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	146	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. However, a predominantly office scheme is now under consideration.
18-30 Leonard Street, EC2	–	Site	5,100	n/a	Planning consent for 3,200m² of residential (47 units) and 1,900m² of office space.
	3.7	**27,500**	**74,400**	**171**	

* 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. Planning studies for regeneration and extension of the existing buildings are being finalised and a planning application is being prepared for submission later this year.
Fitzrovia 80 Charlotte Street, W1	4.3	18,600	A large island block occupied by Saatchi & Saatchi in the heart of our Fitzrovia Estate. The site offers the potential for a major regeneration project.
Belgravia Hyde Park Corner Estate, SW1	5.2	15,700	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.
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.
Clerkenwell 63 Clerkenwell Road, EC1	0.3	4,200	Planning permission for a new build office scheme was refused in November 2009. This is being appealed, with a decision expected in May 2010.
Shoreditch 60 Commercial Road, E1	0.5	2,800	Planning permission for a mixed use scheme was refused in November 2009. Development options are being re-evaluated.
	14.6	**69,700**	

Portfolio management

Principal lettings

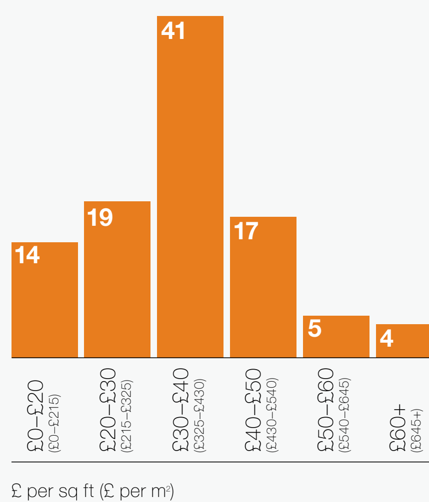
	Approximate net area m²	Rental per annum £m	Headline rental £ per m²	Headline rental £ per sq ft	Comments
Qube, W1	4,455	2.3	590	55	Office lettings to EDF Energy and ScanSafe.
1 Grosvenor Place, SW1	2,490	1.1	500	46	Seven lettings including Jupiter Investment, Aralon Advisory Services and Chenavari Financial Group.
Charlotte Building, W1	1,850	0.9	475	44	Two office lettings: Unanimis and Icon Entertainment.
Portobello Dock, W10	3,435	0.7	240	22	Canal Building let to Innocent Drinks and four other transactions.
Tea Building, E1	3,055	0.6	240	22	Seven lettings including Soho House, Albion Brand Communication, Jacob Bailey and Oakley.
43 Whitfield Street, W1	1,315	0.4	355	33	Three office lettings: University of Leeds, Feilden Clegg Bradley Studios and Zuhlke Engineering.
45-51 Whitfield Street, W1	1,135	0.3	305	28	Entire office building pre-let to Target Media.
4 Grosvenor Place, SW1	750	0.3	485	45	Three office lettings: Vertex Data Science, Gulfstream Management and Perry Capital.
75 Wells Street, W1	615	0.3	455	42	Three office lettings including Bio Agency and Kin UK.
88-110 George Street, W1	465	0.2	385	36	Retail lettings to Tesco and Food Filosophy.

Ten principal tenants % of rental income[1]

Government	7.5
Arup	6.4
Burberry	4.6
Saatchi & Saatchi	3.7
BT	3.6
MWB Business Exchange	2.7
Thomson Reuters	2.3
Pinsent Masons	2.1
BBC	2.0
House of Fraser	1.7
	36.6

[1]Based upon contracted net rental income of £114.9m pa

Office rent banding %



Five year summary

	2009 **£m**	2008 £m	2007 £m	2006 £m	2005 £m
Gross property income	**123.8**	119.0	111.7	51.3	49.5
Net property income	**114.8**	95.5	103.8	58.0	46.6
Recurring profit before tax	**60.2**	23.3	38.0	16.4	16.7
(Loss)/profit on disposal of properties and investments	**(16.6)**	1.2	130.8	2.9	9.6
(Loss)/profit before tax	**(34.9)**	(606.5)	(99.8)	242.8	150.4
Net assets	**1,163.9**	1,215.0	1,841.9	783.4	606.2
Investment property at fair value	**1,918.4**	2,108.0	2,671.7	1,282.7	1,009.8
Revaluation (deficit)/surplus	**(81.1)**	(602.1)	90.3	223.2	124.1
Net debt	**723.4**	865.4	782.8	349.8	303.9
Cash flow	**139.5**	(83.7)	116.9	(59.4)	34.5
Net cash inflow/(outflow) from operating activities	**66.4**	38.3	28.4	(5.6)	13.7
Acquisitions	**10.2**	31.9	140.7	48.9	40.3
Capital expenditure on properties	**94.6**	72.9	68.3	18.9	26.7
Disposals	**195.5**	72.6	352.4	31.2	97.8
Recurring earnings per share (p)	**55.55**	22.83	35.14	27.44	26.23
Dividend per share					
IFRS (p)	**24.50**	23.15	18.025	13.95	12.825
Distribution of year earnings (p)	**27.00**	24.50	22.50	14.75	13.65
Adjusted net asset value per share (p)	**1,168**	1,226	1,801	1,770	1,335
Net asset value per share (p)	**1,117**	1,170	1,770	1,460	1,134
Total return (%)	**(2.7)**	(30.6)	2.8	33.6	25.5
Gearing					
Balance sheet (%)	**62.2**	71.2	42.5	44.7	50.1
Profit and loss – ICR (%)	**330**	247	224	257	241

A list of definitions is provided on page 108.

List of definitions

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

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.

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors.

Recurring net property income
Net property income excluding development income.

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

Adjusted recurring profit before taxation
Recurring profit before taxation adjusted for items which are unlikely to be repeated to the same level in the future, and are excluded to show the underlying trend.

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/Interest cover ratio (ICR)
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/Loan-to-value ratio (LTV)
The nominal value of borrowed funds divided by the fair value of investment property. This is equivalent to the loan-to-value calculations used in the group's bank covenants.

Ground rent
The rent payable by the group for its leasehold properties. Under IFRS, these leases are treated as finance leases and the cost allocated between interest payable and property outgoings.

Building Research Establishment Environmental Assessment Method (BREEAM)
The BREEAM rating assesses the operational and the embodied environmental impacts of individual buildings. The ratings are Pass, Good, Very Good, Excellent and Outstanding.

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 asset value per share at the beginning of the year.

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

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

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

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 2010 management statement	17th May 2010
Annual general meeting	25th May 2010
Payment of 2009 final dividend	17th June 2010
Announcement of 2010 interim results	August 2010
Issue of third quarter 2010 management statement	November 2010
Payment of 2010 interim dividend	November 2010
Announcement of 2010 results	March 2011

Advisers

Auditors
BDO LLP

Solicitors
Slaughter and May

Brokers
UBS
JP Morgan Cazenove

Clearing banker
HSBC Bank plc

Registrar
Equiniti

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