Derwent London plc

Report & Accounts 2012

FRONT COVER IMAGE

Miesian column at 4 & 10 Pentonville Road N1

IN THIS REPORT

Throughout the report we have used the icons below to help navigate to further information

▤ Links to pages within this report

Derwent London owns a portfolio of 5.4 million sq ft (505,800m^2) of commercial real estate predominantly in central London, making us the largest London-focused real estate investment trust (REIT).

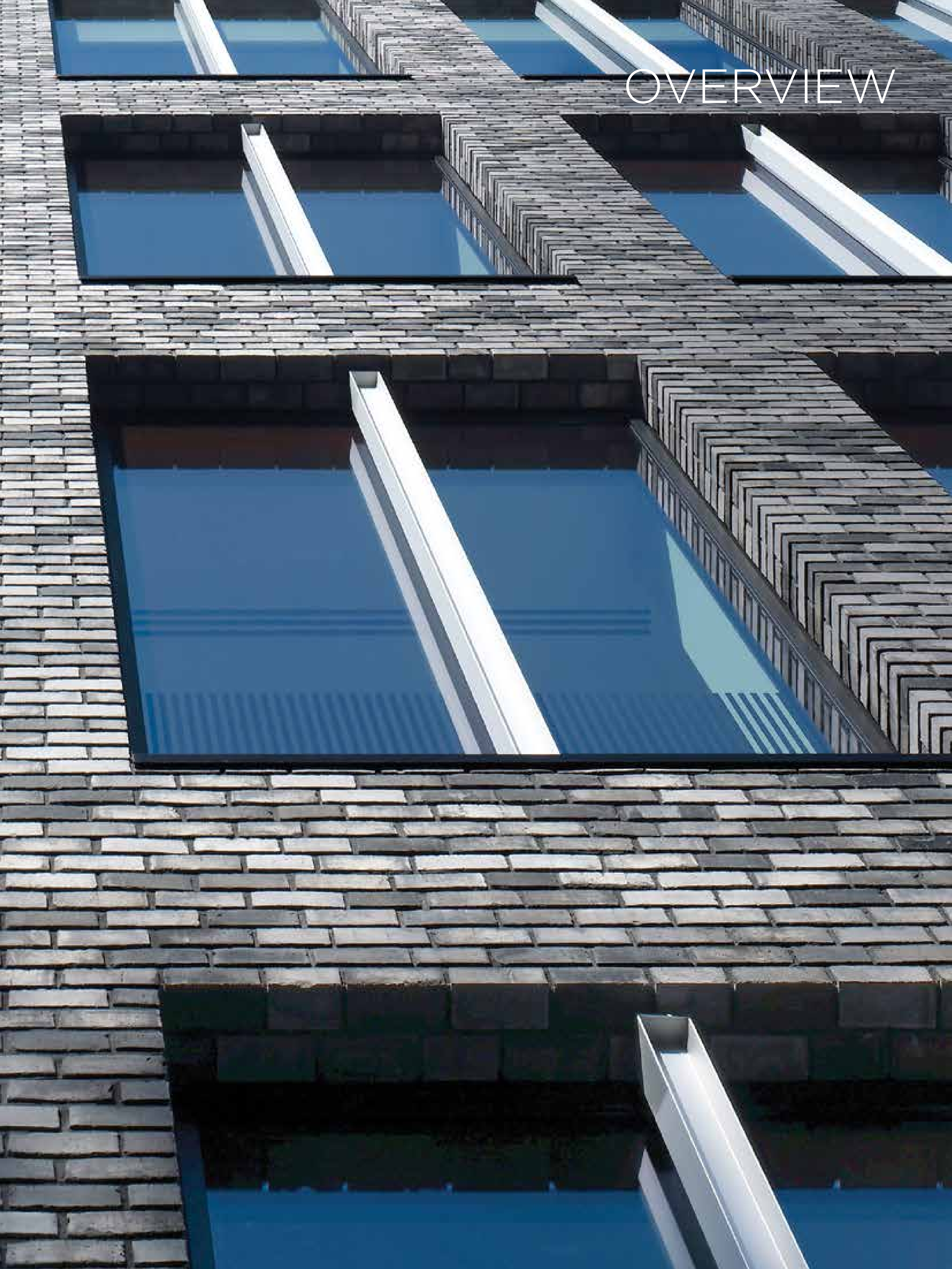
Our experienced team has a proven record of value creation through development, refurbishment and asset management activities. We take a fresh approach to each building, adopting a design-led and tenant-led philosophy.

We focus on buildings with reversionary mid-market rents, particularly those in improving locations around the West End and the City borders.

The business is grounded on a strong balance sheet with modest leverage, a robust income stream and flexible financing.

Creating tomorrow’s space today

OVERVIEW



WHAT WE DO

Our ethos has always been distinctive and design-led. Our speciality is to acquire well-located central London properties with potential and regenerate them to provide good value, high-quality offices.

Our principal objective

To deliver above average long-term returns to shareholders by providing well-designed and affordable offices in central London.

Business model

The Group acquires properties with potential, creates well-designed office space and helps to revitalise neighbourhoods.

We invest in central London excluding the City core.

The majority of the portfolio is income-producing with a reversionary rental profile. The Group applies detailed knowledge of occupiers' needs to attract a wide range of strong tenants. Properties with limited future growth are earmarked for disposal, thereby recycling capital.

Our business is supported by robust and flexible financing with modest leverage and comfortable interest cover.

We do this by:

Acquiring properties and unlocking their potential

Purchasing buildings in London with the scope for improvement or regeneration. Unlocking potential through restructuring leases.

Achievements in 2012

- Acquired Francis House SW1, 9 and 16 Prescot Street E1 and 25 and 29 Berners Street W1 for £90m
- Restructured ownership interests at 40 Chancery Lane WC2
- Established joint venture with Grosvenor at 1-5 Grosvenor Place SW1: 150-year lease unlocks redevelopment opportunity

Focus for 2013

- Add selectively to the portfolio
- Restructure leases to enable redevelopment

7.3%

increase in underlying valuation

p42

Creating well-designed office space

Transforming commercial properties through high-quality design creating flexible, contemporary spaces for our tenants and the local community.

Achievements in 2012

- Completed refurbishment of 4 & 10 Pentonville Road N1
- Commenced redevelopment of Turnmill EC1 and 40 Chancery Lane WC2
- Received planning permission on 655,000 sq ft (60,850m^2)
- 495,000 sq ft (46,000m^2) under development or refurbishment at year end

Focus for 2013

- Complete the regeneration of:
  - – Buckley Building EC1
  - – Morelands Buildings EC1
  - – 1 Page Street SW1
  - – Phase 1, 1-2 Stephen Street W1
- Commence projects at:
  - – Queens, Bishop's Bridge Road W2
  - – 73 Charlotte Street W1
  - – 80 Charlotte Street W1
- Planned capital expenditure of £127m
- Advance existing and future projects

495,000SQ FT

under development or refurbishment at year end

p44

Previous spread:
4 & 10 Pentonville Road N1

Optimising income

Employing our detailed knowledge of occupiers' needs to let to strong tenants from a wide range of businesses.

Achievements in 2012

- Concluded £13.3m lettings on 340,300 sq ft (31,610m^2), including 127,000 sq ft (11,800m^2) pre-let to Burberry
- Maintained low vacancy rate throughout year
- Regeared leases with Telecity and Sage Publications at 1 Oliver's Yard EC2
- Regeared lease with Arup at 8 Fitzroy Street W1

Focus for 2013

- Letting campaign at the Buckley Building EC1
- Pre-letting campaign on White Collar Factory, City Road EC1
- Continue to manage vacancy rate
- Monitor portfolio for further asset management initiatives

1.6%

year end EPRA vacancy rate

p38

Recycling capital

Identifying properties for disposal where value has been optimised and disposing of those which do not fit into the Group's long term plans.

Achievements in 2012

- Raised £161m from the sale of:
  - Riverwalk House and 232-242 Vauxhall Bridge Road SW1
  - Triangle Centre, Bishopbriggs, Scotland
  - 50% interest in 1-5 Grosvenor Place SW1

Focus for 2013

- Monitor portfolio for further opportunities to recycle capital

£161m

property sales

p43

Maintaining robust financing

Maintaining flexible financing with a comfortable level of interest cover and gearing, enabling us to deliver our development ambitions and to take advantage of suitable acquisitions.

Achievements in 2012

- Achieved refinancing targets
- £83m 3.99% 12-year loan arranged with Cornerstone
- Broadened sources of funding: around 50% of loans are from non-bank sources
- Loan-to-value ratio reduced to 30.0%

Focus for 2013

- Continue to monitor gearing levels with reference to interest cover
- Refinance £125m facility expiring in 2014
- Maintain facility headroom of at least £200m

30%

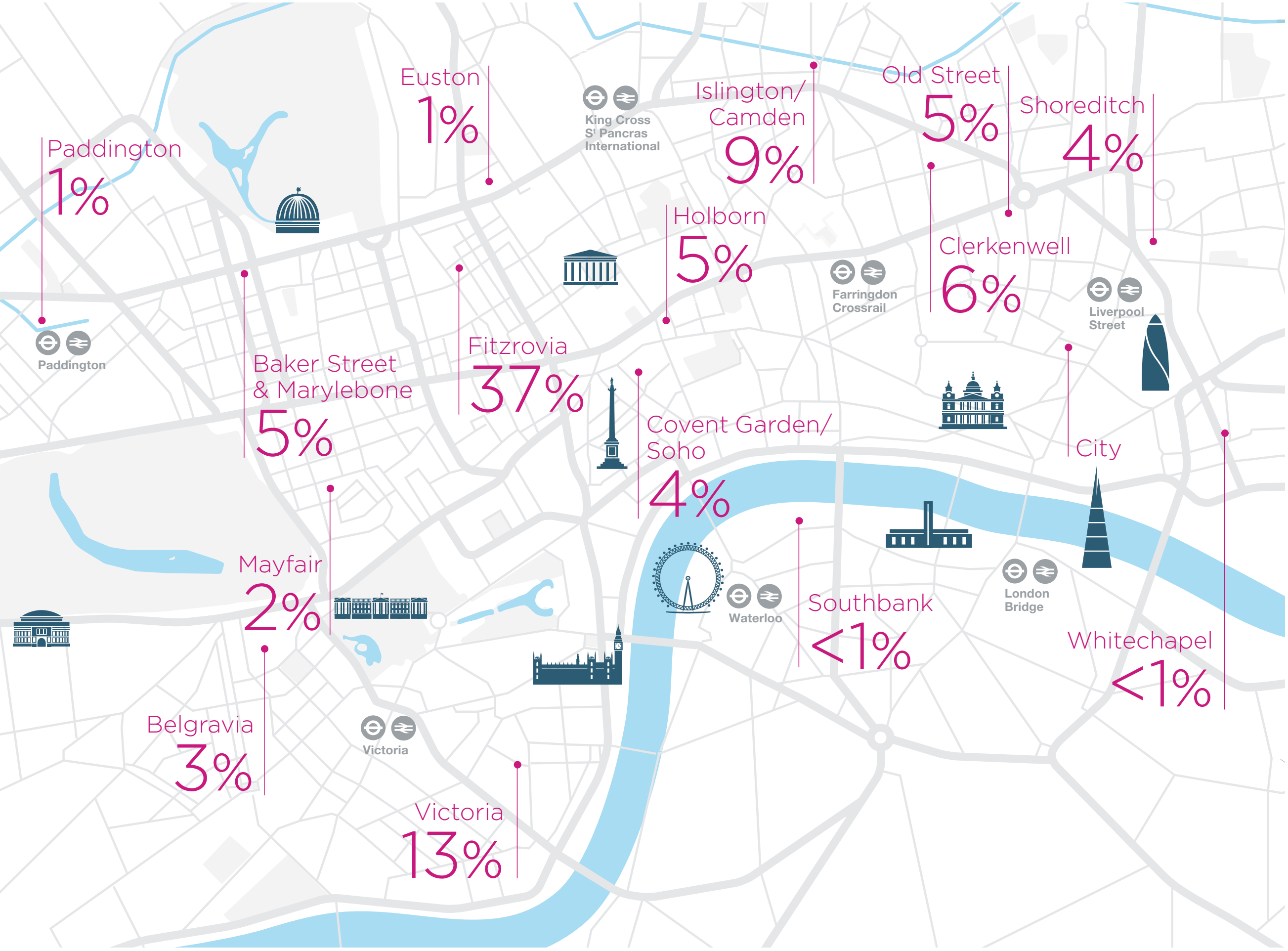
loan-to-value ratio

p58

WHERE WE ARE

Our portfolio comprises 5.4 million sq ft (505,800m^2) of properties valued at £2.9 billion. 97% of our properties are located in central London, grouped in 18 "villages", each with its own culture and identity.

76% can be found in the West End and 21% in the City borders. The balance relates to properties held in Scotland on the northern outskirts of Glasgow.



Percentages weighted by valuation
Scotland: **3%**
Ladbroke Grove: **1%**

129
buildings

550+
tenants

£2.9bn
valuation of the portfolio

£119.6m
annualised net contracted rental income

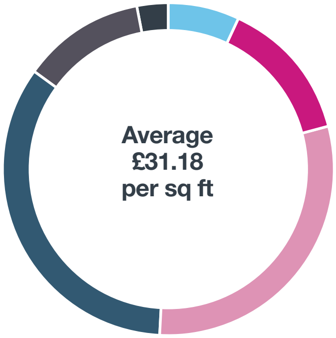
Our portfolio

We own and manage a 5.4 million sq ft (505,800m²) portfolio that was valued at £2.9bn as at 31 December 2012. Of our portfolio, 76% is in the West End, in villages such as Fitzrovia, Victoria and Belgravia. The City borders account for 21% and include villages such as Old Street, Clerkenwell, Shoreditch and Whitechapel in "London's Tech Belt". The remaining 3% is in Scotland, on the northern outskirts of Glasgow.

The portfolio consists of 129 buildings and has over 550 tenants covering a range of business sectors. Media, TV, marketing and advertising tenants account for 29% of our net rental income whilst professional and business services tenants comprise 27% and 12% of our income is from retail head offices. 86% of the portfolio is office space, with the balance mostly retail.

Our portfolio's annualised net contracted rental income at the year end was £119.6m, compared with an estimated rental value of £175.0m, therefore offering strong reversionary potential. With passing rent of £26.04 per sq ft (£280 per m²) on our central London office portfolio, rising to £31.18 per sq ft (£336 per m²) once "topped up" for the expiry of rent free periods and other rental incentives, average rents remain low.

Office rent banding – "topped-up" income[2] %



■ £0 – £20 per sq ft	7
■ £20 – £30 per sq ft	14
■ £30 – £40 per sq ft	30
■ £40 – £50 per sq ft	34
■ £50 – £60 per sq ft	12
■ £60+ per sq ft	3

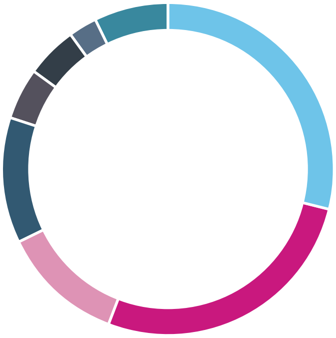
[2] Expressed as a percentage of annualised rental income

Ten principal tenants % of rental income[1]

Arup	**5.2**
Burberry	**4.4**
Cancer Research UK	**4.2**
Saatchi & Saatchi	**3.5**
Government	**3.2**
FremantleMedia Group	**3.1**
MWB Business Exchange	**2.6**
Thomson Reuters	**2.4**
Pinsent Masons	**2.0**
EDF Energy	**1.8**

[1] Based upon contracted net rental income of £119.6m

Profile of tenants' business sectors[2] %



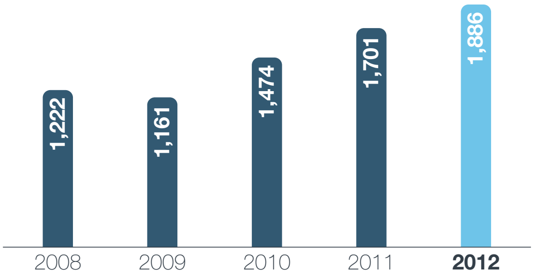
■ Media, TV, marketing and advertising	29
■ Professional and business services	27
■ Retail head offices, showrooms	12
■ Retail sales	12
■ Financial	5
■ Charities	5
■ Government and public administration	3
■ Other	7

FINANCIAL HIGHLIGHTS
EPRA MEASURES

EPRA NAV per share

1,886p

2011: 1,701p

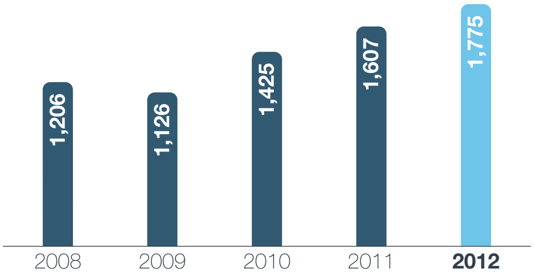


📖 **p55, p125**

EPRA NNNAV per share

1,775p

2011: 1,607p

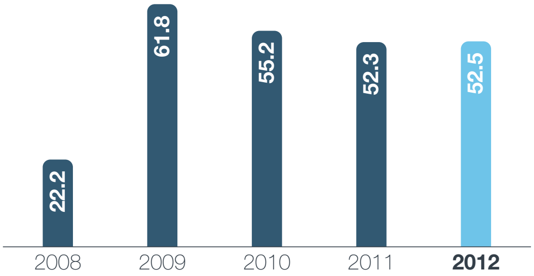


📖 **p125**

EPRA profit before tax

£52.5m

2011: £52.3m

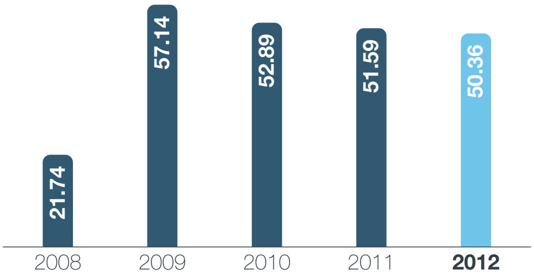


📖 **p56, p124**

EPRA earnings per share

50.36p

2011: 51.59p

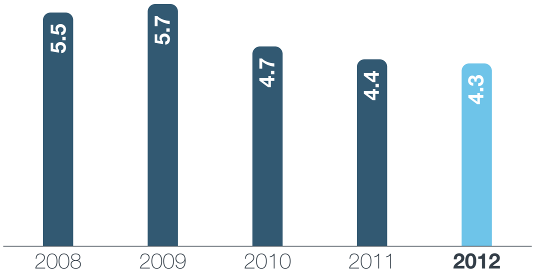


📖 **p56, p124**

EPRA net initial yield[1]

4.3%

2011: 4.4%

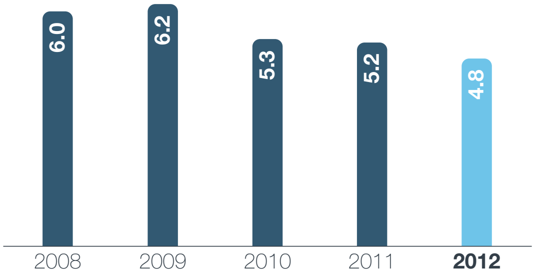


p37, p126

EPRA "topped-up" net initial yield[1]

4.8%

2011: 5.2%

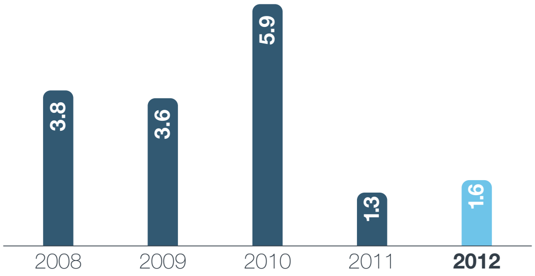


p37, p126

EPRA vacancy rate

1.6%

2011: 1.3%



p41, p126

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[1] Figures for 2008 calculated on a non-EPRA basis, across the whole portfolio

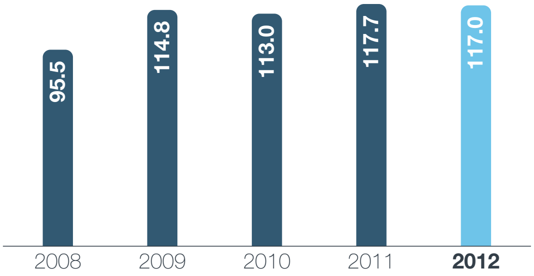
FINANCIAL HIGHLIGHTS
OTHER MEASURES

Net property income

£117.0m

2011: £117.7m

p56, p117

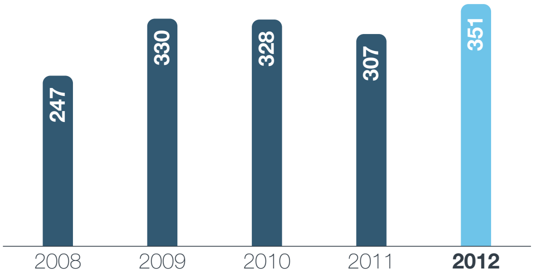


Interest cover ratio

351%

2011: 307%

p60, p141

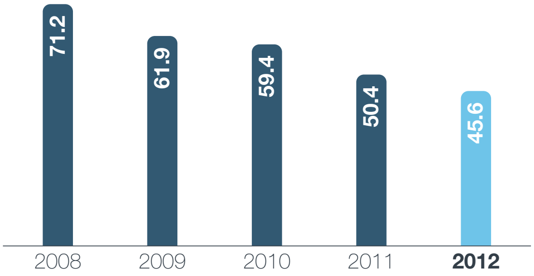


NAV gearing

45.6%

2011: 50.4%

p60, p140

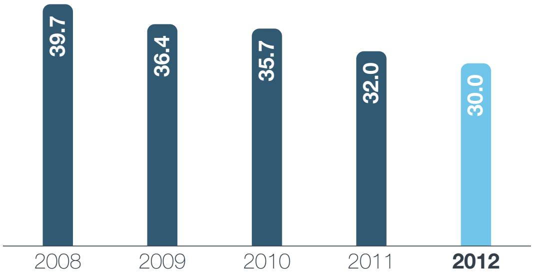


Loan-to-value ratio

30.0%

2011: 32.0%

p60, p140

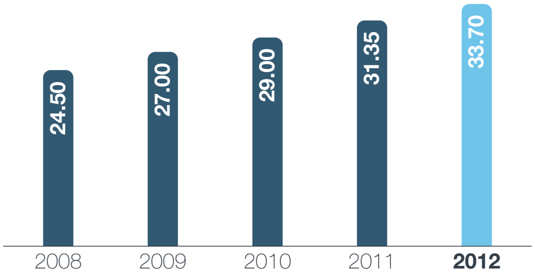


Dividend per share

33.70p

2011: 31.35p

📖 **p60, p142**

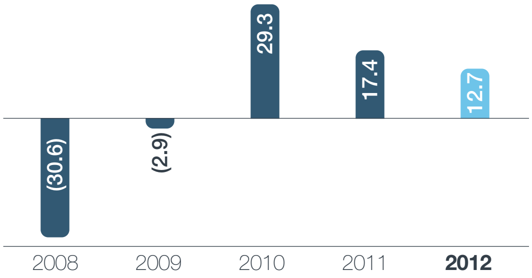


Total return

12.7%

2011: 17.4%

📖 **p26, p142**

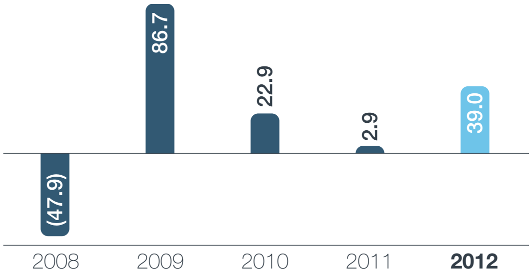


Total shareholder return

39.0%

2011: 2.9%

📖 **p29, p99**

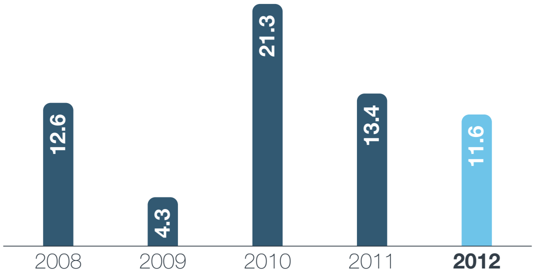


Total property return

11.6%

2011: 13.4%

📖 **p26, p37**



KEY ACHIEVEMENTS

In 2012, we had considerable letting success, added to and progressed our development pipeline and completed a number of key asset and financial management initiatives.

January

Refinanced £300m of bank loans
New £150m five-year facilities completed, one with RBS/Barclays and the other with Lloyds Bank, replacing facilities that were to expire in March 2013.

February

Planning consent granted at Queens, 96-98 Bishop's Bridge Road W2
Construction of 16 residential units and ground floor retail space starts in 2013, retaining the art deco façade.

Pre-let to Burberry at 1 Page Street SW1
All 127,000 sq ft (11,800m²) was pre-let to Burberry at a rent of £5.3m pa on a 20-year lease.

March

BrandOpus pre-let at 1 Stephen Street W1
15,400 sq ft (1,430m²) pre-let at a rent of £52.50 per sq ft on the ground floor and £21.50 per sq ft on the lower ground floor, part of our phased regeneration plans at 1-2 Stephen Street.

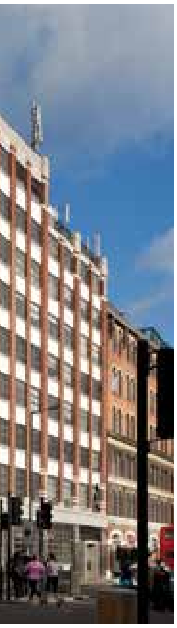
Joint venture with Grosvenor at 1-5 Grosvenor Place SW1
A new 150-year lease and 50:50 joint venture agreement signed with Grosvenor. We are now working towards the redevelopment of this site of over 1.5 acres at Hyde Park Corner.

April

Planning permission for major mixed use scheme at 1 Oxford Street W1
A 275,000 sq ft (25,500m²) scheme to build offices above the Tottenham Court Road Crossrail and London Underground stations.

June

Tea Building wins RIBA regional award
To improve the efficiency of the Tea Building E1 a "Green Tea" refurbishment is underway, including double-glazed windows, high efficiency lighting, roof insulation and a thermal loop to allow energy sharing throughout the building.



July

Purchase of Francis House SW1

A 57,000 sq ft (5,300m^2) freehold office building, adjoining Greencoat & Gordon House and 6-8 Greencoat Place, was purchased for £30.6m.

£83m 12-year secured debt facility signed

The new loan with Cornerstone was signed in July and drawn in August, providing long-term fixed rate debt at an attractive rate of 3.99% to October 2024.

August

Start of construction at 40 Chancery Lane WC2

Having restructured our interests at Chancery Lane earlier in 2012 into a 128-year lease, we started construction of 100,000 sq ft (92,900m^2) of office space.

Lease regears at 8 Fitzroy Street W1 and 1 Oliver's Yard EC2

8 Fitzroy Street is let to Arup. We replaced five-year upward-only reviews with annual stepped increases and will be receiving at least £80 per sq ft by expiry in 2033.

The Telecity leases at 1 Oliver's Yard were extended from five to 25 years and increased the rent from £35 per sq ft on best to £45 per sq ft in 2017, and thereafter the equivalent of 2.5% annual increases.

Start of construction at Turnmill EC1

70,000 sq ft (6,500m^2) new build office building across the road from the entrance to Farringdon station.

September

Purchase of 9 and 16 Prescot Street E1

9 and 16 Prescot Street, totalling 111,000 sq ft (10,310m^2), were acquired for £23.2m reflecting a low capital value of £209 per sq ft (£2,250 per m^2).

December

Purchase of 25 and 29 Berners Street W1

Long leasehold interests over two buildings totalling 79,500 sq ft (7,390m^2) purchased for £36.5m, reflecting a capital value of £460 per sq ft (£4,950 per m^2).

October

Ticketmaster checks in at 4 & 10 Pentonville Road N1

Ticketmaster will occupy 87% of the building under a 12-year lease in a letting agreed just two months after practical completion of this development.

CHAIRMAN'S STATEMENT

The Group achieved a double digit percentage increase in net asset value driven by increasing rents in our markets, asset management activity and progress in our development pipeline.

> “We are continuing to see new tenants attracted to the space we provide and consider that rents in our markets will continue to rise.”

Robert Rayne
Non-executive Chairman

Last year was both a significant year for London and another strong one for Derwent London. The Group’s hallmark mid-market office product was in demand, there was excellent progress in the development pipeline, a string of successful planning decisions and the unlocking of value through restructuring of leasehold interests. We added to the portfolio in our core markets, recycled capital and achieved our refinancing targets. This activity added value and we saw an 11% increase in EPRA net asset value per share to 1,886p with the portfolio generating an overall revaluation surplus of £175.3m. All this was achieved whilst broadly maintaining profits and further strengthening our balance sheet.

Highlights

Progress was made across all the Group’s business areas:

- 340,300 sq ft (31,610m^2) of space was let, securing £13.3m of rental income at an average premium of 7.6% to 31 December 2011 ERV, of which 55% related to pre-lettings of developments. The EPRA vacancy rate of available space at the year end was 1.6%.
- Six planning consents were secured totalling 655,000 sq ft (60,850m^2).
- 4 & 10 Pentonville Road N1 was completed (55,000 sq ft/5,110m^2) and is 87% let.
- Asset management initiatives were completed on 580,000 sq ft (53,900m^2) providing greater longevity of income and inbuilt rental growth.
- Principal acquisitions were five properties totalling 247,500 sq ft (23,000m^2) bought for £90.3m after costs (£365 per sq ft/£3,930 per m^2) at an average net initial yield of 4.7%.
- Disposals raised £161m after costs, generating a profit of £6.9m. These included the 50% interest in 1-5 Grosvenor Place SW1 to facilitate future development. The remainder were non-core assets.
- Our financing retains strength and flexibility. During the year we signed an £83m 3.99% 12-year secured loan, further diversifying our sources of finance and increasing our weighted average length of unexpired debt to 6.1 years at the year end.

The EPRA net initial yield of the portfolio was 4.3% at 31 December 2012. The EPRA like-for-like net rental income increased over the year by 8.2%. In addition at the year end reversionary income stood at £55.4m pa, 38% of which is contracted through the expiry of rent free periods, stepped rents and fixed uplifts.

Our market

In 2012, the eyes of the world were on London, which hosted memorable celebrations for the Queen’s Diamond Jubilee, the Olympics and the Paralympics. The capital excelled in its time in the spotlight, demonstrating just what an attractive, welcoming and exciting place it is. It has an effective and improving infrastructure, a diverse and vibrant mix of cultural events and the London economy stands apart from the country as a whole. London is a desirable place in which to live, work and operate businesses. Consequently the property investment market in central London continues to flourish with yields remaining firm, supported by high levels of activity.

11%
increase in EPRA net asset value per share

8.2%
increase in EPRA like-for-like net rental income

7.5%
increase in dividend for the year

£13.3m
of lettings concluded

6.7%
rise in underlying estimated rental values

495,000 SQ FT
of major projects underway

Derwent London is an innovator in the regeneration of London's offices, investing in improving areas in the West End and City borders and offering tenants great space. This requires well-designed buildings at reasonable rents in the appealing locations of the future – such as those close to the Crossrail routes or within "London's Tech Belt", an arc stretching between King's Cross and Whitechapel. Our mid-market offices continue to attract tenants with Unilever recently taking 21,100 sq ft (1,960m²) at the Buckley Building EC1. We said at the beginning of 2012 that rents would rise, and were pleased to see stronger growth than the 4-5% we had envisaged, with a 6.7% underlying increase in the estimated rental value (ERV) and new lettings signed at rents on average 7.6% ahead of December 2011 ERV.

Capturing value

The strength of the occupational market and our robust financing give us the confidence to press ahead with our development pipeline. We completed 4 & 10 Pentonville Road N1 in August 2012, but still had six major projects underway at the year end totalling 495,000 sq ft (46,000m²). During 2013 we are starting work on three additional schemes totalling 422,000 sq ft (39,200m²) including our largest project to date, the 385,000 sq ft (35,800m²) regeneration of 80 Charlotte Street, Fitzrovia W1.

Looking further to the future, we have over 1.8 million sq ft (169,000m²) of exciting projects to start in 2014 and beyond, of which 0.9 million sq ft (86,000m²) has planning permission.

One of our largest schemes with planning permission is the White Collar Factory at City Road EC1 where we are about to finish a working prototype. Marketing presentations begin in April before we move into full scale construction of this office development in the heart of "London's Tech Belt" on a speculative basis.

We have recently signed an option agreement with the freeholder and head leaseholder that provides for a regear of our leasehold interest at 55-65 North Wharf Road W2. This will enable us to proceed with the development of 240,000 sq ft (22,300m²) of office space under a 999-year lease at this important site in Paddington where we hold a planning consent.

Results and dividend

Derwent London's property portfolio increased in value to £2.86bn as at 31 December 2012, showing an overall revaluation surplus of £175.3m and an underlying valuation increase of 7.3% during the year, which compares to annual capital growth of 4.1% produced by the IPD Central London Offices Index. Of our valuation increase, 4.1% came in the second half of 2012. The portfolio's total property return for the year was 11.6% against 8.8% for IPD. This strong property return contributed to EPRA net asset value per share rising to 1,886p at the year end compared with 1,701p at 31 December 2011 and 1,770p at 30 June 2012. After adding back dividends, the Group's total return for the year was 12.7%.

> "The performance of the business gives us the confidence both to accelerate our development pipeline and increase the dividend for the year by 7.5%."
>
> **Robert Rayne**
> **Non-executive Chairman**

Despite a significant acceleration in development activity during the year, income levels have been broadly maintained, with EPRA profit before tax of £52.5m against £52.3m in the previous year. Given dividend cover of 1.5 times and our current outlook, we are recommending a final dividend for the year of 23.75p, an increase of 8.4%, to be paid on 14 June 2013 to shareholders on the register on 10 May 2013. Of this, 18.75p will be paid as a PID under the UK REIT regime and there will be a scrip alternative. The total dividend for the year is therefore 33.70p, an increase of 7.5% on that in 2011.

The Group's overall debt position was broadly unchanged with net debt up by only 1.2% over the year to £874.8m. The overall loan-to-value ratio at the end of 2012 fell to 30.0% from 32.0% in 2011 and gross interest cover over 2012 has increased to 351% from 307% last year. Following the arrangement of a new £83m 12-year loan in August, around 50% of our current financing is with non-bank sources and we have increased the weighted average unexpired duration of debt to 6.1 years. We had substantial undrawn facilities totalling £333m and uncharged properties totalling £624m at the year end giving us the headroom to meet our committed capital expenditure requirements.

We do not achieve these results without considerable commitment, skill and hard work. I would like to thank the Derwent London team, and congratulate them for winning Management Today's 'Britain's Most Admired Property Company' award for the third successive year.

The Board

We welcomed Simon Fraser to the Board on 1 September 2012 and believe that his extensive corporate broking and financial services experience will benefit the Group. Simon Neathercoat retired from the Board on 31 December 2012 after giving 13 years of valuable advice.

Outlook

London is a desirable place in which to operate and invest and this currently shows no signs of changing. Our office brand appeals to a wide range of tenants from both a design and a price perspective, in particular those from the broad-based TMT world. The increase in rents in our markets in 2012 exceeded our expectations. We believe we shall see rental growth in these markets of 4-6% in 2013 with yields remaining stable.

We have an extensive and deliverable pipeline of value-creating developments, both for the near term and extending into the future. These are well-located in our core areas and in many cases will benefit substantially from the arrival of Crossrail.

In 2013 we aim to make progress in the following areas:

- Complete 212,000 sq ft (19,700m^2) at Buckley Building EC1 and 1 Page Street SW1 which are 70% pre-let overall.
- Progress construction of 256,000 sq ft (23,790m^2) at 1-2 Stephen Street W1, 40 Chancery Lane WC2 and Turnmill EC1.
- Commence construction of 422,000 sq ft (39,200m^2) in three developments including 80 Charlotte Street W1. Of this space around 20% will be residential, which will enable Derwent London to take advantage of the current high demand for central London residential property.
- Progress a number of major consented projects, including White Collar Factory EC1, 55-65 North Wharf Road W2 and a retail scheme at 18-30 Tottenham Court Road W1 (together 570,000 sq ft/ 52,910m^2).
- Advance the planning of our future value-creating opportunities, including 1-5 Grosvenor Place SW1.

Our increased development programme, significant reversionary potential and asset management activities provide a strong foundation for the delivery of future value. Low leverage and our focus on interest cover create the financial strength to undertake this development pipeline and to take advantage of new opportunities. These components give us a powerful platform for growth, thereby continuing to provide attractive returns to shareholders.

Robert A. Rayne
Non-executive Chairman
28 February 2013

OUR MARKET

The central London office market, where 97% of Derwent London's portfolio is located, plays a key role in the success of the capital by providing a home to a wide range of national and international companies.

London's economy is predominantly service-based and accounts for approximately 20% of national output. It remained resilient in 2012 despite the weakness in the UK economy as a whole. In central London, Derwent London's core market, office take-up was lower than average but the supply of space was constrained, thereby keeping vacancy rates below trend and providing the conditions for further rental growth. In addition London continued to be seen by investors as offering an attractive investment destination. Transaction volumes were at their highest level for five years, according to leading surveyors, CBRE.

Economic backdrop

The lack of growth in the UK economy, with continued austerity measures and uncertainties within the Eurozone, provided the main economic backdrop to 2012. UK GDP was flat over 2012, compared with a rise of 0.9% in 2011. The UK base rate remained unchanged at 0.5%, whilst total employment reached an all-time high, rising 1.6% over the year and CPI inflation fell from 4.2% to 2.7%. London's economy proved more resilient than that of the country as a whole with its GDP growing 0.3% over the year, according to Oxford Economics.

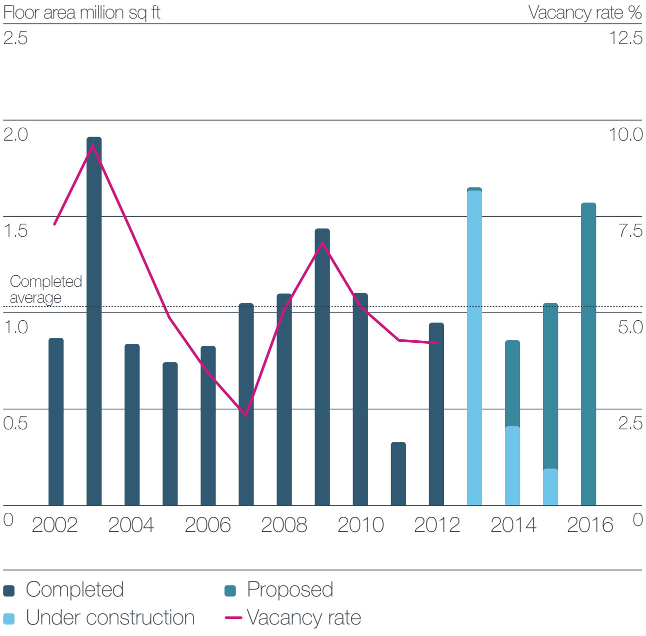
Looking forward, the outlook for UK growth remains subdued. The Bank of England forecasts that the economy is likely to see a gradual recovery over the next three years with GDP growth of around 1% predicted for 2013, well below its historical average. In London the economy is expected to continue to outperform the country as a whole, notwithstanding some of the enduring banking issues, with GDP growth of 1.3% forecast for 2013 and 2.5% for 2014.

Central London office occupier market

The central London office market, where 97% of Derwent London's portfolio is located, plays a key role in the success of the capital by providing a home to a wide range of national and international companies. At the year end, the capital's office stock totalled approximately 221 million sq ft (20.5 million m²) – 49% located in the City, 42% in the West End and 9% in Docklands.

CBRE reported that central London office take-up in 2012 totalled 9.8 million sq ft (0.91 million m²), 7% lower than the previous year and 17% below the 10-year average. In the West End take-up was 16% below the average at 3.5 million sq ft (0.33 million m²) with the TMT sector comprising 23% of transactions. During 2012, West End active demand increased 15% with the TMT sector accounting for over 50% of year end requirements, suggesting that the low take-up at least in part reflects the low level of completions. Overall City activity was 12% below the 10-year average at 4.1 million sq ft (0.38 million m²).

West End office development pipeline



Source: CBRE

On the delivery side, West End development completions were fractionally below the 10-year average at 0.95 million sq ft (88,300m²) whilst City completions were just 0.51 million sq ft (47,400m²), 73% below the 10-year average. These relatively low levels of supply helped moderate the central London vacancy rate which was 5.3% at the year end. The West End vacancy rate declined slightly from 4.3% to 4.2% whilst the City rate decreased from 7.0% to 6.8% over the same period. With supply for both locations still below 10-year averages, the CBRE prime rent index showed further rental uplift with growth of 3.7% in the West End and 0.8% in the City over the year.

The level of West End completions is expected to rise considerably during 2013, but we expect that this space will be absorbed by the market, given current levels of demand and the level of pre-lets already agreed on these properties.

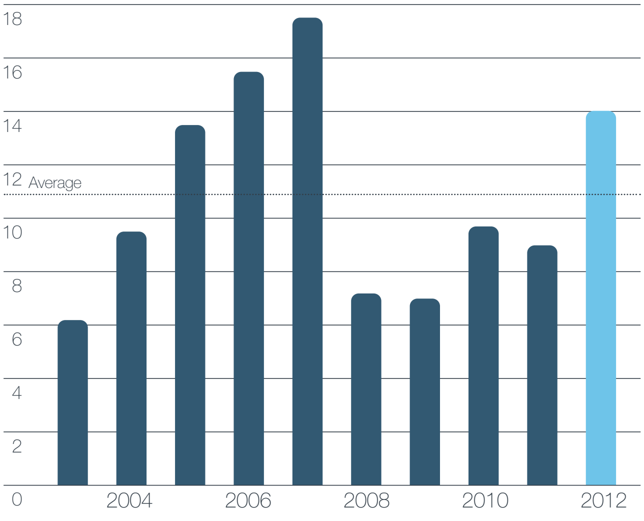
Central London office investment market
According to CBRE, central London office investment transactions totalled £14.0bn in 2012, 55% greater than 2011 and 28% above the 10-year average. London's status as an international safe haven persisted with the property market offering both rental growth and liquidity. Overseas investors accounted for 67% of acquisitions.

Prime yields were static throughout the year at 4.0% in the West End and 5.0% in the City.

The progress in the Crossrail project gained visibility during 2012. There was a flurry of acquisition and development activity around future Crossrail hubs such as Tottenham Court Road and Farringdon stations, where we have a large concentration of our portfolio, whilst Shoreditch, with its new High Street station, benefited from the completion of the London Overground orbital.

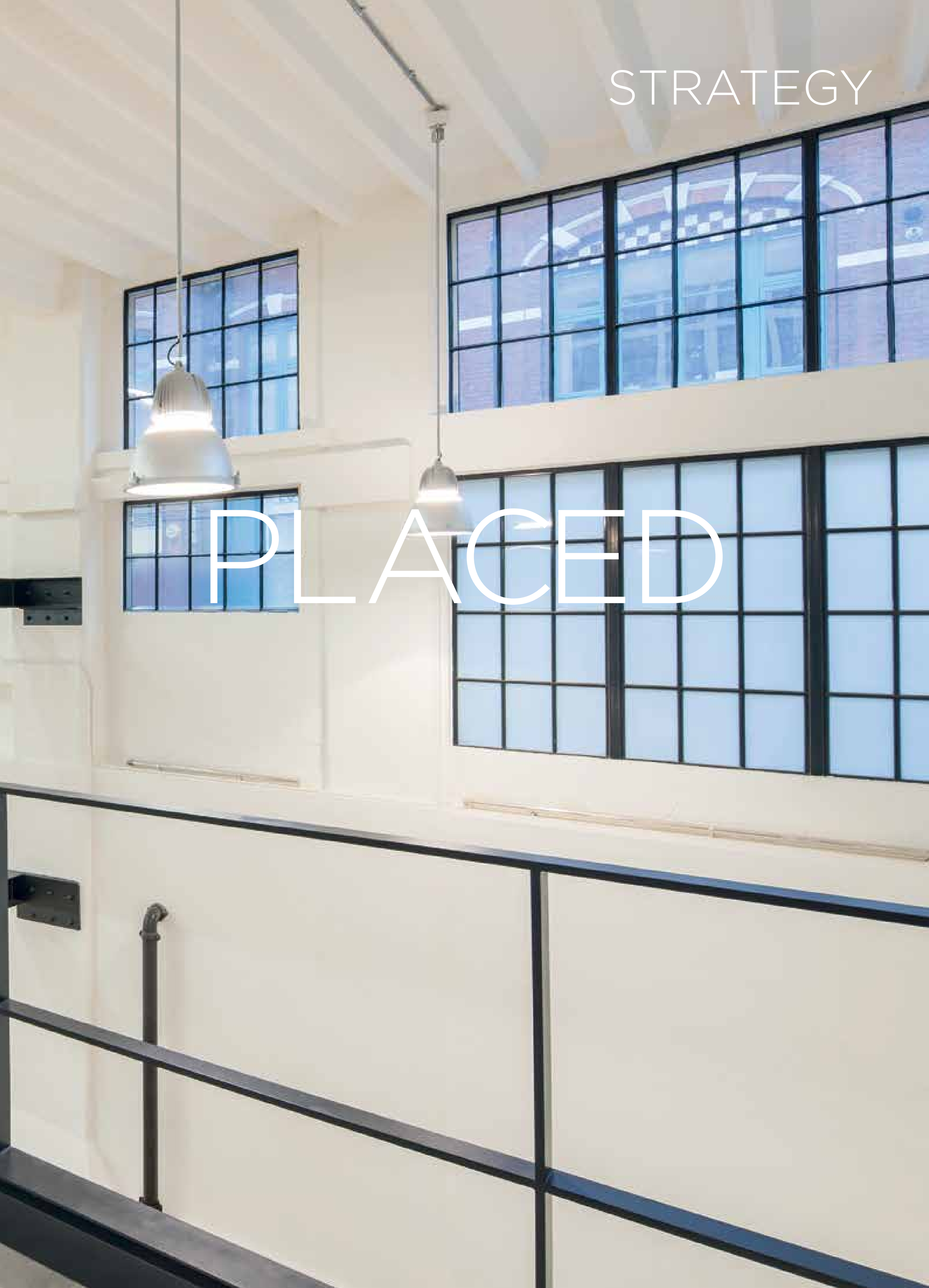
We note with interest the Government's plans to include conversion of offices to residential units within permitted development rights for three years, but do not believe that this will have a significant impact on our business.

Central London office investment transactions £bn



Source: CBRE

WELL



STRATEGY

PLACED

WELL PLACED: CROSSRAIL

The opening of Crossrail in 2018 will significantly improve transport into London. 200 million passengers are expected to travel on it each year with 24 trains per hour running between Paddington and Whitechapel during peak times. Derwent London owns property all along the central section of the line, most notably near Tottenham Court Road and Farringdon stations.

Portfolio distribution

Distance from Crossrail station

- 🟥 < 400 metres
- 🟦 < 800 metres

Paddington

At 55-65 North Wharf Road W2 there is planning permission to build 240,000 sq ft (22,300m²) of offices and 73,000 sq ft (6,800m²) of residential accommodation and retail space. The site is one of the best locations within Paddington Basin yet to be developed. It is ideally placed, directly opposite one of the entrances to the station.

In 2013 we signed an option agreement with the freeholder and head leaseholder that will provide us with a 999-year headlease and enable us to proceed with the office development. The head leaseholder will be responsible for the residential element.

55-65 North Wharf Road W2

240,000SQ FT

Tottenham Court Road station – North

Derwent London has substantial holdings north of Oxford Street within easy reach of Tottenham Court Road station.

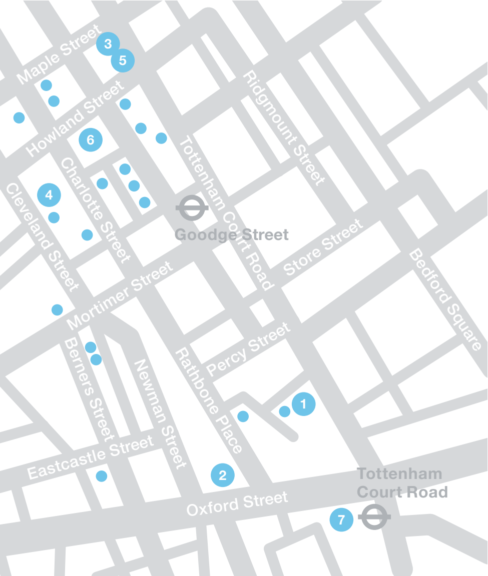
At 1-2 Stephen Street we are regenerating the building with a new entrance together with the refurbishment of the offices above. The next phase will be to extend the retail units on the Tottenham Court Road side of this building to create a new and improved double-height frontage for the existing colonnade. The arrival of Crossrail should make this area a shopping destination to rival the western end of Oxford Street.

Holden House and Charlotte Building are also close by, with our other properties further north in Fitzrovia such as Qube, Network Building and Middlesex House a short walk away.

Later this year we start the redevelopment of 80 Charlotte Street, our largest project to date, to create 385,000 sq ft (35,800m^2) of offices and residential space less than 800m from the Crossrail interchange.

p44, p50, p52

①	1-2 Stephen Street W1	254,500SQ FT
②	Holden House W1	90,800SQ FT
③	Qube W1	109,900SQ FT
④	Middlesex House W1	64,600SQ FT
⑤	Network Building W1	64,100SQ FT
⑥	80 Charlotte Street W1 (proposed)	385,000SQ FT
⑦	1 Oxford Street W1 (proposed)	275,000SQ FT



Tottenham Court Road station – South

We also hold property south of Oxford Street. Derwent London intends to exercise its option to buy back 1 Oxford Street W1 in 2017 following completion of works on the Tottenham Court Road Crossrail station. In April 2012 we received permission to build offices, retail units and a new theatre in a 275,000 sq ft (25,500m^2) scheme above the station.

A **55-65 North Wharf Road:** Aerial view of proposed office development opposite Paddington station.

B **1 Oxford Street:** View of proposed theatre and offices from Charing Cross Road.

C **80 Charlotte Street:** Proposed view of offices.

Farringdon

Farringdon station is on course to become one of the busiest stations in London once Crossrail is complete. Thanks to the additional presence of the Thameslink line, commuters will be able to access Heathrow, Gatwick, London City, and Luton airports as well as the Eurostar terminal at St Pancras directly.

We are well placed to benefit from the ascent in the fortunes of this area with redevelopments underway at Turnmill and 40 Chancery Lane, refurbishments at Buckley Building and Morelands Buildings as well as the now well-established Johnson Building.

p44, p50

⑧ Buckley Building, 49 Clerkenwell Green EC1

85,000SQ FT

⑨ Morelands Buildings, 5-27 Old Street EC1

90,100SQ FT

⑩ Turnmill, 63 Clerkenwell Road EC1

70,000SQ FT

⑪ 40 Chancery Lane WC2

100,000SQ FT

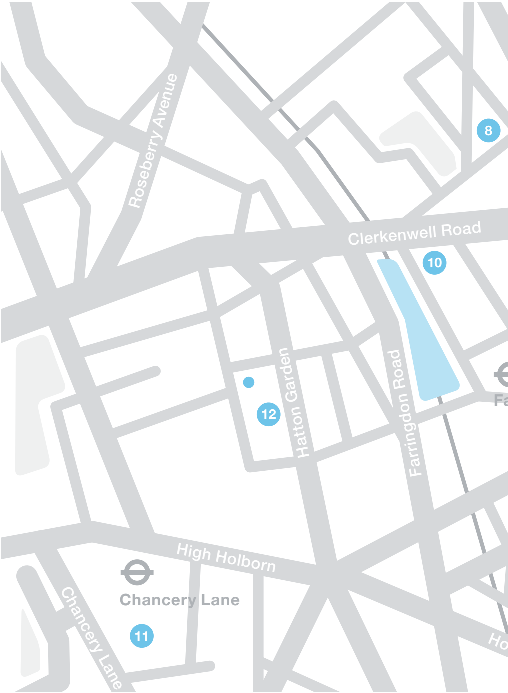
⑫ Johnson Building, 77 Hatton Garden EC1

157,200SQ FT

D

Farringdon

> “Crossrail is a fundamental game changer. It is the largest civil-engineering project in Europe… None of London’s peer group has seen anything like it. We are treading entirely new stock renewal ground.”
>
> **CBRE**



D **Turnmill:** Proposed view from Clerkenwell Road.

E **Tea Building:** Easy walking distance to Liverpool Street Crossrail station.

Liverpool Street

The Liverpool Street Crossrail station will have additional entrances at Moorgate station. This puts our White Collar Factory and 1 Oliver's Yard holdings at Old Street, as well as the Tea Building in Shoreditch, in easy proximity – making the area more accessible for overseas visitors, as well as providing a straightforward commute for employees.

Tea Building E1

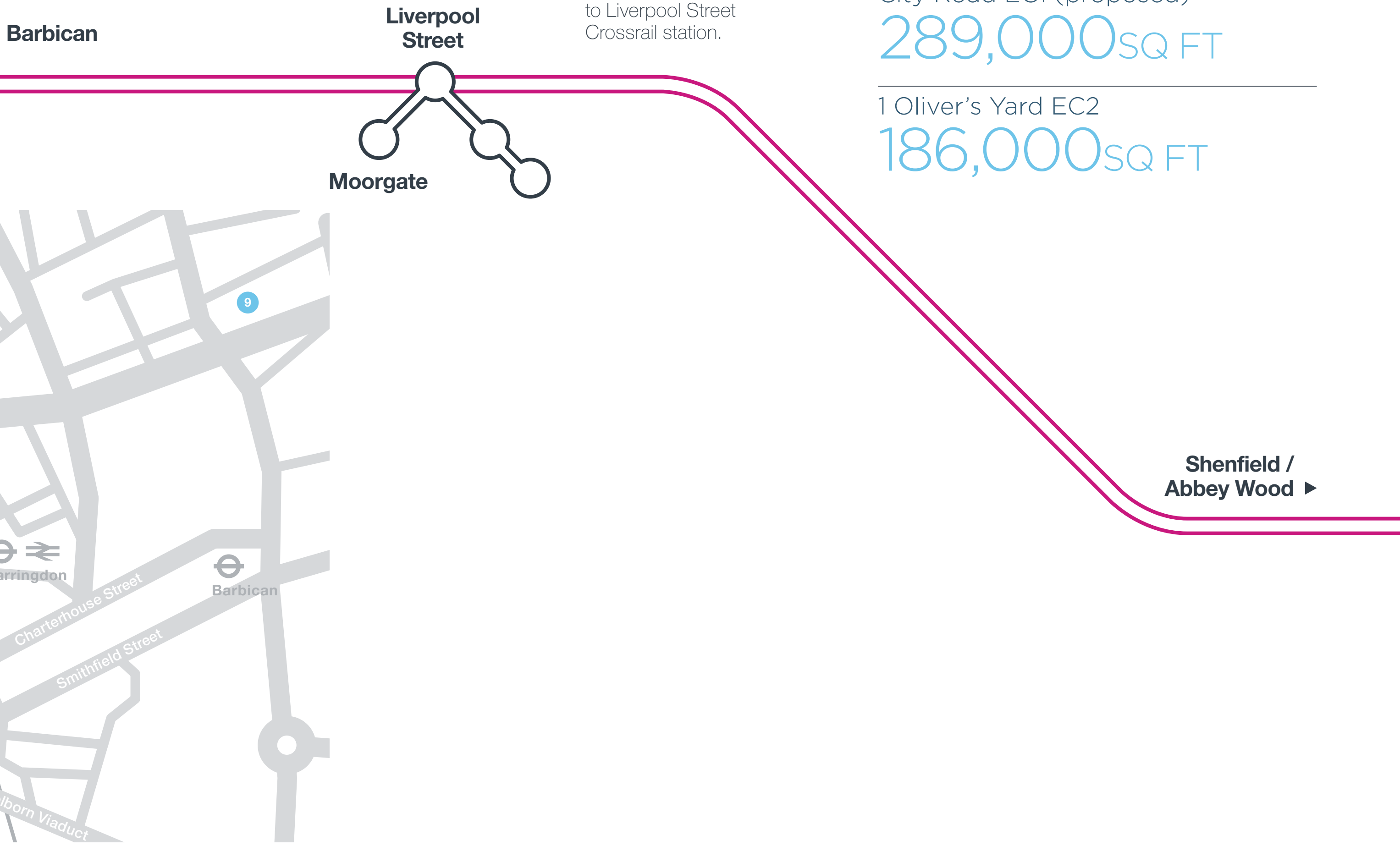
259,400SQ FT

White Collar Factory,
City Road EC1 (proposed)

289,000SQ FT

1 Oliver's Yard EC2

186,000SQ FT



BUSINESS MODEL

Derwent London seeks to produce consistently above average, long-term returns from its portfolio of mid-market central London offices.

> “At Derwent London we look to create tomorrow’s space today.”

John Burns
Chief Executive Officer

Previous spread:
Sweeps Studios, adjacent to Johnson Building EC1

> “Derwent was by far and away the most consistently cited UK company among the industry figures polled because of the way it focuses on creating buildings that tenants want to be in and spots trends in terms of the areas and types of buildings occupiers want.”

Property Week International’s “The Big 10” (8 March 2013) – poll of property professionals to see which companies they rated as the best in the world

From long experience the Derwent London team has shown that well-judged investment decisions, creative thinking, strong operational performance and an appropriate level of regeneration activity supported by robust financing can achieve attractive, sustained returns.

The Group typically acquires properties with identified potential often in improving areas of London. These locations will have good public transport links and, as the neighbourhood is revitalised, new users are attracted to the area. We adopt a unique plan for each property, which is designed to complement its particular characteristics. Value can be achieved by:

- a rolling refurbishment;
- adding space through infilling, conversion of underutilised areas or additional floors;
- regeneration where the building is obsolete;
- creating marriage value through buying adjacent properties;
- negotiating with freeholders to restructure leasehold interests; or
- using asset management initiatives to increase the income return.

Underpinning this approach is a desire to create sustainable workplaces that are efficient and welcoming and in which tenants can work for many years.

The team works with a variety of both established and up-and-coming architects to create well-designed office space. Development activity is balanced to maintain income where possible whilst freeing up space for regeneration.

275%

outperformance compared with FTSE EPRA UK index over 10 years

The strength of our balance sheet means that we do not require specific development finance for our schemes which are usually begun on a speculative basis, though these are often de-risked part way through via pre-letting.

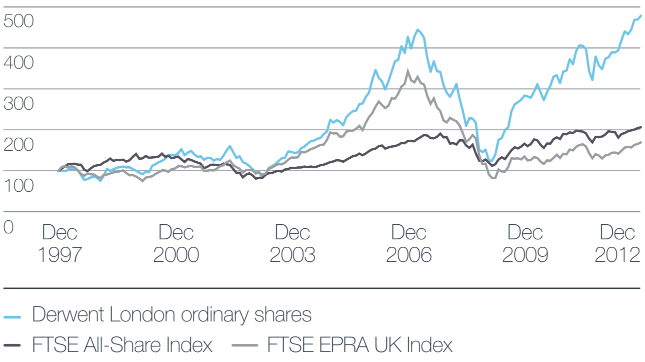
The majority of the portfolio is income-producing with reversionary rents. This means that open market rents are higher than the current passing rent. The Group optimises income by applying detailed knowledge of current and potential occupiers’ needs to attract strong tenants from a wide range of businesses. Over time, reversionary income is captured through rent rises or asset management. We often seek to move tenants within the portfolio to maximise value growth.

Properties where we believe there is limited future growth are identified for disposal, enabling us to recycle our capital effectively into more profitable projects.

Our business is supported by robust, flexible financing with moderate leverage and comfortable interest cover. This provides the ability to deliver development ambitions and to take advantage of suitable acquisitions quickly.

Total shareholder return (%)

	Derwent London	FTSE All-Share Index	FTSE EPRA UK Index
15 years	378.5	106.5	69.7
10 years	359.2	131.7	67.0
5 years	64.6	13.2	(22.3)
1 year	39.0	12.3	29.9



BUSINESS STRATEGY

The strategies employed by the Group to implement the business model are explained below, together with the key associated risks and the key indicators with which performance is measured.

Our business model	**Acquiring properties and unlocking their potential**	**Creating well-designed office space**
Our strategies to achieve this	- Using our detailed understanding of the London market to buy at modest capital values in emerging locations, taking advantage of market cycles - Holding a variety of types and sizes of properties, primarily in the West End and the borders of the City - Building a portfolio with a variety of regeneration opportunities, both in terms of timing and scale - Restructuring ownership interests where necessary to unlock development opportunities - Maintaining a strong balance sheet with flexible financing to allow us to act quickly when opportunities arise - Avoiding the core of the City of London as we believe it has a more extreme property cycle	- Combining exciting and innovative architecture with environmentally friendly, high quality construction - Harnessing the design flair of a range of architectural, design and engineering practices to create inspiring spaces - Avoiding over-specification of buildings to provide attractive, adaptable offices - Adjusting the scale of the development pipeline depending on market conditions, tenant demand and the mix of the rest of the portfolio - Adapting existing structures where possible, saving embodied carbon and reducing the use of new materials - Investing in public realm to provide attractive spaces for our tenants and the wider local community
Current areas of focus	- Adding to our portfolio in core areas of operation	- Demonstrating the design of the White Collar Factory concept, including concrete core cooling - Accelerating development pipeline
Key risks that we take into account in implementing our strategy **p30**	- Inconsistent strategy - Breach of financial covenants	- Inconsistent development programme - Reduced development returns - Inconsistent strategy - Shortage of key staff - Reputational damage
Key performance indicators that measure our performance **p26**	- Total return - Total property return **p42**	- Total property return - BREEAM ratings **p44**

> "Derwent develops space in which the trendy kids who work in the TMT (technology, media and telecoms) sector want to be. The market has come to Derwent but the development of schemes such as the Tea Building in Shoreditch means Derwent has helped to create the market."

Property Week International's "The Big 10" (8 March 2013) – poll of property professionals to see which companies they rated as the best in the world

Optimising income	Recycling capital	Maintaining robust and flexible financing
■ Providing attractive space at mid-market rents that appeal to a wide range of tenants ■ Working closely with tenants and other stakeholders to understand tenants' needs ■ Altering lease lengths, building in fixed minimum rental uplifts or finding new space from elsewhere in the portfolio to accommodate those needs if necessary ■ Building "green" features into our developments to minimise the property's environmental impact ■ Generating sufficient income from the portfolio to maintain comfortable interest cover and recurring profits	■ Reviewing the status and options for each property in the portfolio regularly ■ Disposing of assets where we believe future growth is limited when market conditions are favourable ■ Disposing of assets that are deemed non-core when market conditions are favourable ■ Keeping the proportion of the portfolio suitable for refurbishment or redevelopment at around 50%	■ Basing our assessment of sustainable gearing on a minimum level of interest cover and a maximum level for the Group's loan-to-value ratio ■ Varying our sources of funding in accordance with the lending environment ■ Maintaining excellent long-term relationships with our lenders and refinancing facilities well in advance of expiry ■ Using interest rate hedging to provide adequate protection against unpredictable changes in short-term interest rates
■ Replacing upward-only rent reviews with fixed minimum uplifts where practicable	■ Identifying assets suitable for recycling	■ Diversifying sources of funds
■ Tenant default ■ Reduced development returns ■ Shortage of key staff ■ Reputational damage	■ Breach of financial covenants ■ Sub-optimal financing structure	■ Breach of financial covenants ■ Higher interest rates ■ Sub-optimal financing structure ■ Reputational damage
■ Void management ■ Tenant receipts	■ Total property return	■ Interest cover ratio
p38	**p43**	**p58**

KEY PERFORMANCE INDICATORS AND METRICS

Key performance indicators

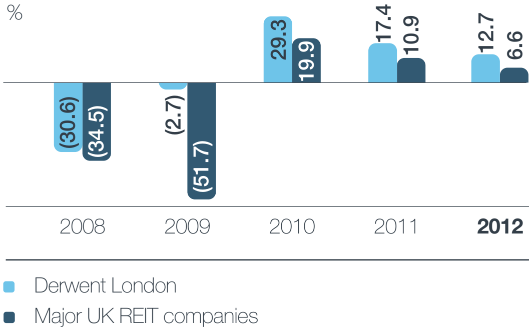
Objective | **Measure** | **Progress**

Maximise overall returns from the portfolio

p55

Total return

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

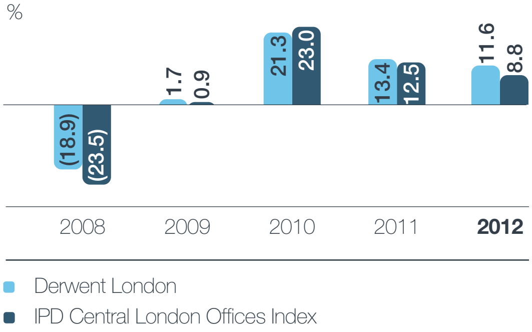


Maximise returns from the investment portfolio

p36

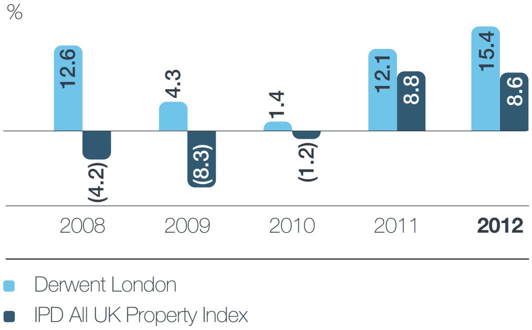
Total property return

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

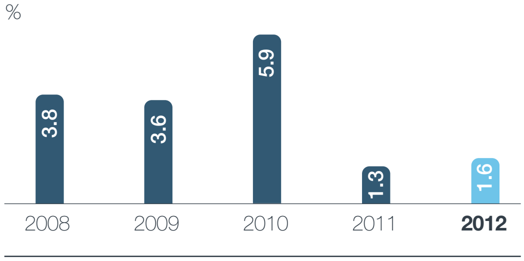
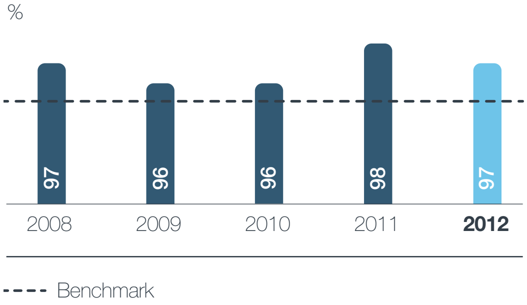
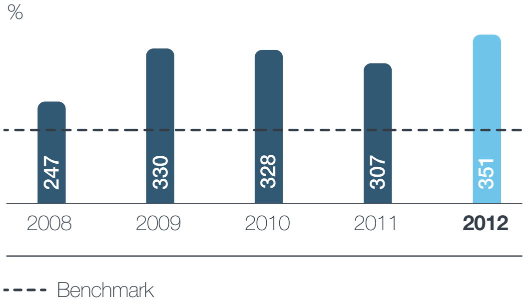


Total property return – three year rolling

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



We outperformed all of our key performance indicator benchmarks in 2012.

Objective	Measure	Progress
Maximise returns from the investment portfolio p41	**Void management** We plan ahead to minimise the space immediately available for letting and this should not exceed 10% of the portfolio's estimated rental value	
Maximise cash flow p41	**Tenant receipts** We aim to collect more than 95% of rent invoiced within 14 days of the due date throughout the year	
Financial stability p58	**Interest cover ratio** We aim for our gross rental income to be at least twice our net interest payable. This measures our ability to meet our interest obligation and is similar to that in many of the Group's security-specific bank covenants	
Environmental sustainability p64	**BREEAM ratings** All developments in excess of 5,000m² to obtain a Building Research Establishment Environmental Assessment Method (BREEAM) rating of "Very Good" or above	See below

BREEAM	Completion	Expected rating
4 & 10 Pentonville Road	Completed	Very Good
Buckley Building	March 2013	Very Good
Morelands Buildings	March 2013	Outstanding
1 Page Street	Q2 2013	Excellent
Turnmill	Q3 2014	Excellent
40 Chancery Lane	Q4 2014	Excellent
1-2 Stephen Street	2013/14	Very Good

KEY PERFORMANCE INDICATORS AND METRICS
CONTINUED

Key metrics

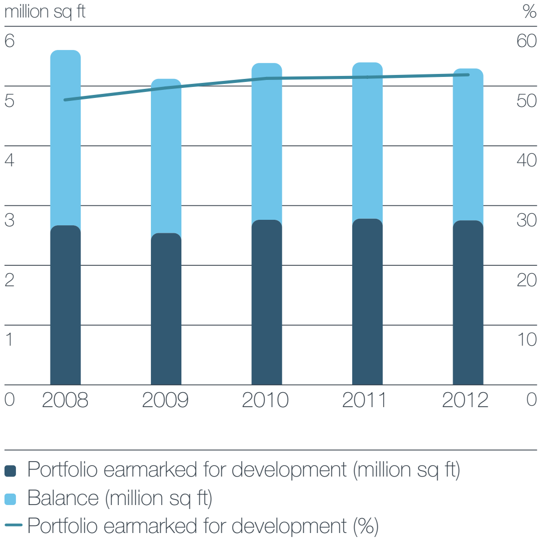
Objective	Measure	Progress

Future capital growth

p44

Development potential
We monitor the proportion of our portfolio that has the potential for refurbishment or redevelopment

52% of our portfolio has potential for refurbishment or redevelopment



Future rental growth

p39

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

%	**2008**	**2009**	**2010**	**2011**	**2012**
Reversion	33	14	27	42	**46**

Environmental sustainability

p63

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

EPC	**Completion**	**Expected rating**
4 & 10 Pentonville Road	Completed	C
Buckley Building	March 2013	C
Morelands Buildings	March 2013	B
1 Page Street	Q2 2013	C
Turnmill	Q3 2014	B
40 Chancery Lane	Q4 2014	B
1-2 Stephen Street	2013/14	C

De-risking of income stream

p7, p38

Diversity of tenants
A diverse tenant base, both in number and across different industries, protects our income stream

See principal tenants and profile of tenants' business charts on page 7

Continuity of income

p40

Tenant retention
It is important, where we wish to retain income, that we maximise tenant retention following tenant lease breaks or expiries and minimise any void period

	2008	**2009**	**2010**	**2011**	**2012**
Exposure (£m pa)	13.0	12.1	11.5	16.2	**14.7**
Retention (%)	70	66	72	72	**81**
Re-let (%)	11	18	17	21	**5**
Total (%)	81	84	89	93	**86**

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

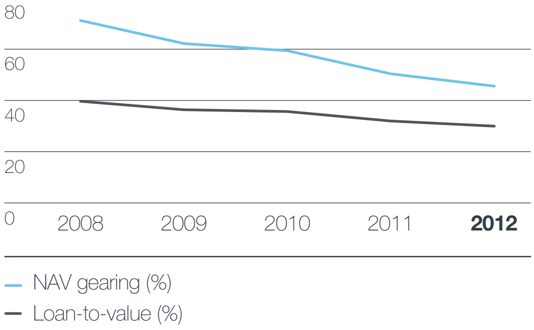
Objective | **Measure** | **Progress**

Financial stability

p58

Gearing

Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio

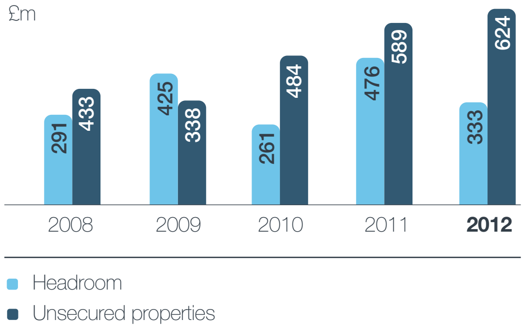


Financial flexibility

p58

Available resources

We ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities and we carefully monitor our headroom (ie the difference between our total facilities and the amounts drawn under those facilities)

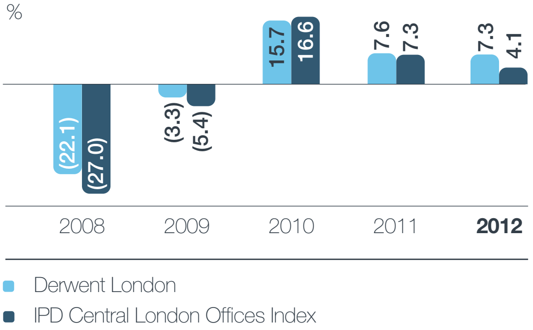


Maximise returns to the investment portfolio

p36

Capital return

We compare our performance against the IPD Central London Offices Index for capital growth

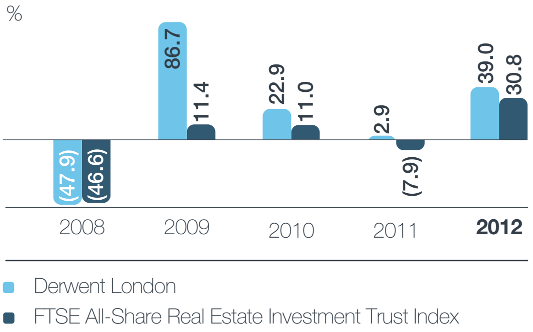


Maximise returns to shareholders

p99

Total shareholder return

We compare our performance against the FTSE All-Share Real Estate Investment Trust Index[1]



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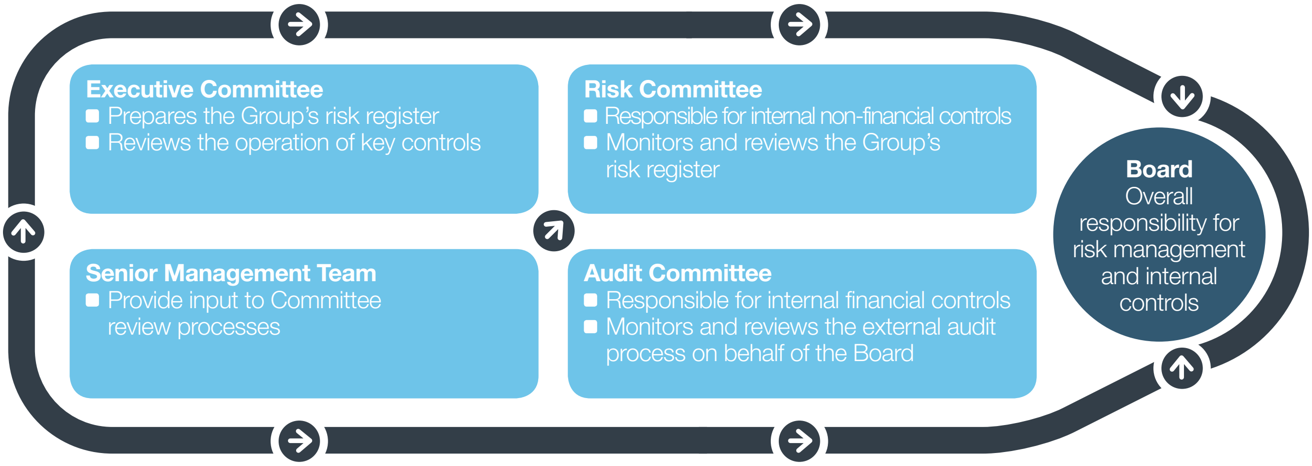
[1] In accordance with industry best practice, the benchmarks have been calculated using a 30-day average of the returns

RISK MANAGEMENT

Risk is an inherent part of running a business and, whilst the Board aims to maximise returns, it needs to understand and manage the associated risks.

Risk organisation structure



Executive Committee
- Prepares the Group's risk register
- Reviews the operation of key controls

Senior Management Team
- Provide input to Committee review processes

Risk Committee
- Responsible for internal non-financial controls
- Monitors and reviews the Group's risk register

Audit Committee
- Responsible for internal financial controls
- Monitors and reviews the external audit process on behalf of the Board

Board
Overall responsibility for risk management and internal controls

Risk is an inherent part of running a business and, whilst the Board aims to maximise returns, it needs to understand and manage the associated risks. Whilst overall responsibility for this process rests with the Board it has delegated responsibility for assurance concerning the risk management process to the Audit Committee and the Risk Committee, the latter having been established at the end of 2011. Executive management is responsible for designing, implementing and maintaining the necessary systems of internal control.

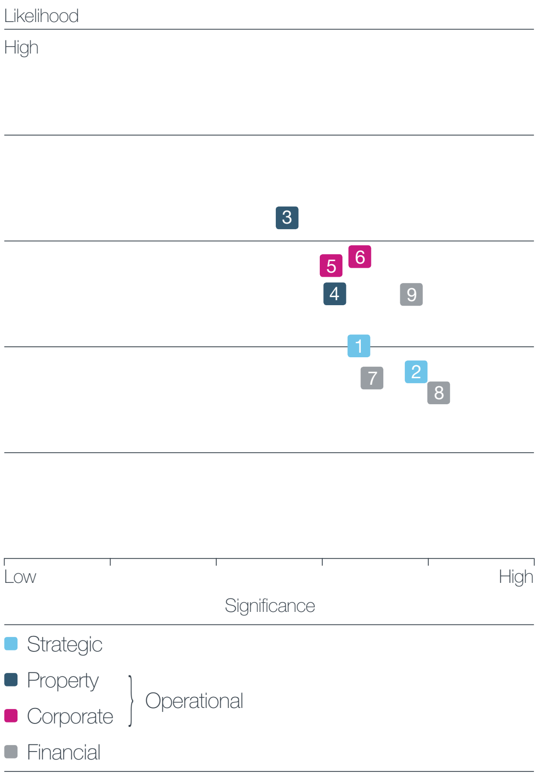
The Group operates principally from one central London office with a relatively flat management structure. This enables members of the Executive Committee to be closely involved in day-to-day matters and therefore able to quickly identify and respond to risks.

A key element in the system of internal controls is the Group's risk register which is reviewed formally by the Board once a year. The register is prepared by the members of the Executive Committee which, having identified the risks, collectively assesses the severity of each risk, the likelihood of it occurring and the strength of the controls in place. This approach allows the effect of any mitigating procedures to be considered and recognises that risk cannot be totally eliminated at an acceptable cost. It also recognises that there are some risks that, with its experience and after due consideration, the Board will be prepared to accept.

The register, its method of preparation and the operation of the key controls in the Group's system of internal control, is reviewed throughout the year by the Risk Committee, which periodically receives presentations from senior management to gain a more in-depth understanding of the control environment in certain areas of the business. The register was updated between December 2012 and February 2013 and includes 43 risks across the following categories: strategic risks, corporate risks, property risks and financial risks.

The principal risks and uncertainties that the Group faces in 2013, together with the controls and mitigating factors, are set out on the following pages.

Major risks



Key to risk table below

- ↑ Risk increase
- ↗ Risk slight increase
- → Risk unchanged
- ↘ Risk slight decrease
- ↓ Risk decrease

Strategic risks

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

Risk effect and progression	Controls and mitigation	Action
1 Inconsistent strategy - The Group's strategy is inconsistent with the state of the market in which it operates. **2 Inconsistent development programme** - The Group's development programme is not consistent with the economic cycle. The Group currently benefits from a strong central London market which could be adversely affected by a number of high level economic factors. This would reduce the value of the Group's portfolio. KPIs affected: – Total return – Total property return The Board sees the level of this risk as broadly unchanged from last year. →	- The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios caused by changing the main underlying assumptions to reflect different economic scenarios. - The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility arises from the policy of maintaining income from properties for as long as possible until development starts. - Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable. - The risk remains significant and therefore in forming its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	- The last annual strategic review was carried out by the Board in June 2012. This considered the sensitivity of six key measures to changes in underlying assumptions including interest rates and borrowing margins, timing of projects, level of capital expenditure and capital recycling. - The three rolling forecasts prepared during the year focus on the same key measures but consider the effect of varying different assumptions to reflect changing economic and market conditions. - The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. - At the year end the Group's interest cover ratio was above 350%, the REIT ratios were comfortably met and its loan-to-value ratio was 30%.

RISK MANAGEMENT
CONTINUED

Operational risks[1]

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

Risk effect and progression	Controls and mitigation	Action
3 Reduced development returns ■ The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: – Delays in the planning process. – Delays due to contractors/ sub-contractors defaulting. – Increased construction costs. – Adverse letting conditions. KPIs affected: – Total return – Total property return Taken as a whole the Board considers this risk to be at the same level as last year. →	■ Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. ■ The scale of the Group's development programme is managed to reflect anticipated market conditions. ■ Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage. ■ Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified and implemented.	■ The Group is advised by top planning consultants and has considerable in-house planning expertise. ■ Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. ■ The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. ■ Development costs are benchmarked to ensure that the Group obtains competitive pricing. ■ The Group's style of accommodation remains in demand as evidenced by the 49 lettings achieved in 2012, which totalled 340,300 sq ft. ■ The Group has secured significant pre-lets of the space in its current development programme which significantly "de-risks" these projects.
4 Tenant default ■ The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. The continuing lack of growth in the UK economy could lead to an increase in business failure. KPIs affected: – Tenant receipts – Void management – Total return – Total property return } if significant – Interest cover ratio The Board considers this risk to have increased over the past year due to the effect that the prolonged austerity measures are having on businesses. ↑	■ All prospective tenants are considered by the Group's credit committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. ■ The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. ■ The Group's credit committee regularly reviews a list of slow payers and considers what actions should be taken.	■ The Group has a diversified tenant base. ■ The credit committee meets each week and considered 98 potential tenants during the year. ■ In total the Group holds rental deposits amounting to £10.8m. ■ On average during the year, the Group has collected 97% of the rents due within 14 days of the due date.
5 Reputational damage ■ The Group's cost base is increased or its reputation damaged through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This risk would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to have increased over the year due to increased legislation covering more areas of the Group's business and an increased ability of pressure groups to gain publicity for any breaches. ↑	■ The Group's Risk Committee reports to the Board concerning regulatory risk. ■ The Group employs a health and safety manager. ■ A sustainability committee chaired by Paul Williams and advised by external consultants addresses risk in this area. A sustainability manager was recruited in January 2013. ■ The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. ■ All new members of staff benefit from an induction programme.	■ A Health and Safety report is presented at all Executive Committee and main Board meetings. ■ The Group pays considerable attention to sustainability issues and produces a sustainability report annually.

[1] Incorporates the corporate and property risks from the Group's risk register

Operational risks (continued)

6 Shortage of key staff ■ The Group is unable to successfully implement its strategy due to inadequate succession planning or a failure to recruit and retain key staff with appropriate skills. No KPIs affected. The risk is seen as unchanged over the year. →	■ The remuneration packages of all employees are benchmarked regularly. ■ Six-monthly appraisals identify training requirements which are fulfilled over the next six months. ■ The Nominations Committee reviews the Group's succession planning for both executive and non-executive Directors.	■ The Group recruited 11 new members of staff during 2012. The key appointment of a sustainability manager was made in January 2013. ■ Staff turnover during 2012 was low at 7% (9% including retirees). ■ The Executive Committee considers non-Board succession issues.

Financial risks

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

Risk effect and progression	Controls and mitigation	Action
7 Breach of financial covenants ■ 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. KPIs affected: – Total return (property values) – Total property return (property values) – Interest cover ratio (rental income) The Board considers this risk to be slightly lower this year as it has considerable headroom within its covenants and expects the business cycle to be less volatile. ↘	■ The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as overall NAV gearing. Treasury control schedules are updated weekly whilst the rolling forecasts enable any potential problems to be identified at an early stage and corrective action to be taken. The Group has considerable headroom under its financial covenants, operates at a modest level of gearing and has a substantial amount of uncharged property that could be secured if necessary.	■ The Group tests its compliance with financial covenants regularly and operated comfortably within these limits throughout 2012. Property values could decline by around 40% at the balance sheet date before there would be a breach of financial covenants. ■ Compliance with the financial covenants is one of the matters monitored as part of the sensitivity analysis undertaken when preparing the annual strategic review and the rolling forecasts. ■ At 31 December 2012 the Group owned £624m of uncharged properties.
8 Sub-optimal financing structure ■ The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources. KPI affected: – Interest cover ratio The Board considers this risk to have decreased over the past 12 months as the Group has increased the diversity of its funding sources and there have been improvements in the health of the banking sector. ↓	■ The Group's five-year strategic review and rolling forecasts enable financing requirements to be identified at an early stage. This allows alternative sources of finance to be evaluated and the preferred one to be identified. To a degree, the funds can then be raised when market conditions are favourable.	■ The Group's financing comes increasingly from a number of different sources/providers and has a varied maturity profile. The proportion of the Group's borrowings provided by bank loans decreased from 59% at 31 December 2011 to 50% at the year end. ■ The refinancing of the facilities maturing in 2013 that was started in 2011 was completed in August 2012. The focus in 2011 was to renew or refinance revolving bank facilities. Then in August 2012, the remaining £150m bank loan expiring in 2013 was prepaid and cancelled and a new £83m loan was signed with Cornerstone/Mass Mutual for a term of 12¼ years at a fixed rate of 3.99%. ■ As at 31 December 2012, the weighted average duration of the Group's debt was 6.1 years. ■ At the year end the Group had £333m of unutilised, available, committed bank facilities.
9 Higher interest rates ■ Financing costs are higher due to increases in interest rates. KPI affected: – Interest cover ratio The Board sees this risk as unchanged over the year. →	■ 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.	■ During the year the Group terminated three interest rate swaps which were at historic rates and initiated new instruments which have locked in the lower rates that were available at that time. ■ 92% of borrowings were fixed or hedged at the year end.

Spread overleaf:
1 Oliver's Yard EC2

EFFECTIVE

PERFORMANCE

RELATIONSHIPS

EFFECTIVE RELATIONSHIPS

Strong relationships in all parts of our business are an important component of our continued success and assist us in adding value to the portfolio.

Tenants

We 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.

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 accommodate expansion, contraction and lease regears wherever possible. During 2012 we regeared leases at 1 Oliver's Yard and 8 Fitzroy Street, increasing the rent and, at Oliver's Yard, the length of the leases. This has led to strong increases in the respective value of these properties and greater security of income and tenure for both Derwent London and our tenants.

1 Oliver's Yard EC2

Sage Publications (40,300 sq ft/3,740m^2)

- Leases extended from two to seven years
- Annual stepped increases introduced taking the rent from £1.0m (£25 per sq ft) to £1.4m (£36 per sq ft)
- December 2011 ERV (£28.50 per sq ft)

TelecityGroup (68,700 sq ft/6,380m^2)

- Leases extended from five to 25 years
- Rent increases introduced taking rent from £1.8m to £2.3m (£45 per sq ft on best space) and 2.5% compound increases every five years thereafter

Resulting valuation increase

17%

1

2

8 Fitzroy Street W1

- Let to Arup (148,000 sq ft/13,750m²) until 2033
- £6.2m pa (£45 per sq ft on a typical floor)

Before

- Five-yearly upward-only rent reviews

After

- Annual stepped increases to £8.4m pa (£60 per sq ft) by 2021
- Upward only rent review in 2021
- Thereafter rent increases annually by 2.5%
- Rental income by expiry of at least £11.0m pa (£80 per sq ft)

Resulting valuation increase

5%

1. **1 Oliver's Yard EC2:** View from City Road
2. **1 Oliver's Yard EC2:** New upgraded reception
3. **8 Fitzroy Street W1:** Atrium
4. **40 Chancery Lane WC2:** Proposed street level view

Unique opportunities

We treat each building as a unique opportunity. While our approach to every property is consistent, the solution for each will be different. Through innovative ideas we look to add floorspace and thereby value.

We keep in close contact with the freeholders of our leasehold properties and discuss the plans for these buildings to ensure that the maximum value is extracted.

Three developments were unlocked in the past year, all of which involved lengthy negotiations with the respective freeholders to achieve the optimal solution.

40 Chancery Lane WC2

The development value of this site was unlocked in February 2012 through a regear with our freeholder, Colville Estates. The existing buildings have been demolished and the scheme is scheduled to be delivered at the end of 2014 incurring capital expenditure to complete of £34m.

70,600SQ FT to 100,000SQ FT

42% uplift

p44

		Previous ownerships		Current ownerships	
	Area sq ft	Colville Estates	Derwent London	Colville Estates	Derwent London
40-43 Chancery Lane (A)	53,800	Freehold	17-year leasehold expiring 2029	Freehold	128-year leasehold
44-45 Chancery Lane (B)	9,700	Freehold	No interest		
20-21 Tooks Court (C)	7,100	No interest	Freehold		New ground rent 18% – estimated £0.95m
	70,600				

55-65 North Wharf Road W2

Planning permission was secured for these leasehold offices near Paddington station in January 2008 to provide 240,000 sq ft (22,300m^2) of offices and 73,000 sq ft (6,800m^2) of residential accommodation and retail space.

Derwent London has entered into an option agreement with the freeholder and the head leaseholder.

On exercise of the option, the freeholder will grant us a 999-year lease over the site of the office element and surrounding public realm. At the same time the freeholder will grant the head leaseholder a 999-year lease over the site of the residential element. We will pay a ground rent of 2.5% of the rent of the office element and will undertake to build the basement box of the combined office and residential elements.

The head leaseholder will pay a £5m contribution towards the cost of this box. Once this has been completed we will build the offices (building A below) and the head leaseholder will be responsible for the residential element (building B below).

This option agreement enables the redevelopment of 55-65 North Wharf Road. The existing buildings of 78,000 sq ft (7,250m^2) are currently fully occupied under leases which have rolling breaks from June 2014.

78,000SQ FT to
240,000SQ FT
208% uplift

7

8

9

5. 40 Chancery Lane WC2: Proposed courtyard

6. 40 Chancery Lane WC2: Site plan

7. 55-65 North Wharf Road W2: Proposed new office building

8. 55-65 North Wharf Road W2: Site plan

9. 1-5 Grosvenor Place SW1 Existing building

1-5 Grosvenor Place SW1

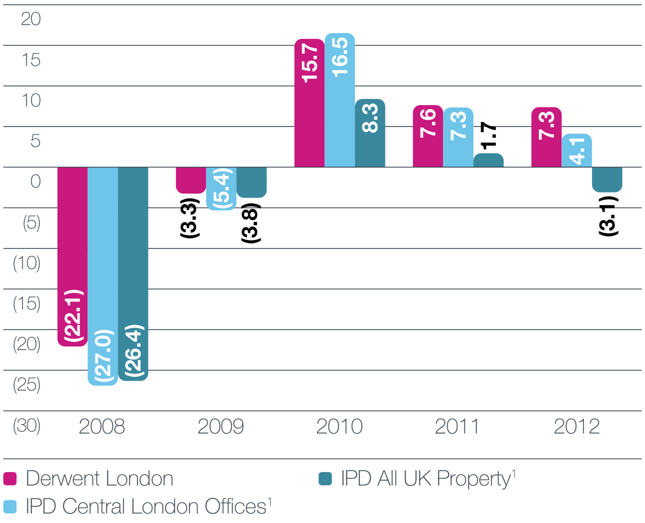
Originally built in the 1960s, these 168,000 sq ft (15,600m^2) buildings were comprehensively refurbished in the late 1990s/early 2000s. In 2012, Derwent London and Grosvenor announced a joint venture to work towards the redevelopment of the entire site. The Group restructured its headleases into a new 150-year term and sold 50% of this interest to Grosvenor for £60m. The existing buildings occupy an under-utilised flagship site of 1.5 acres and offer a unique opportunity to undertake a substantial mixed-use redevelopment in a highly prominent location. Whilst we progress redevelopment plans, we are maintaining income through short-term, flexible lettings. We have appointed advisors with our joint venture partner, Grosvenor, and are working up a development plan with a view to submitting the planning application in the next 12 months.

PROPERTY REVIEW VALUATION

The strong levels of investment in London's commercial property market, together with good demand for space and improving central London office rents, presented a positive backdrop to the valuation.

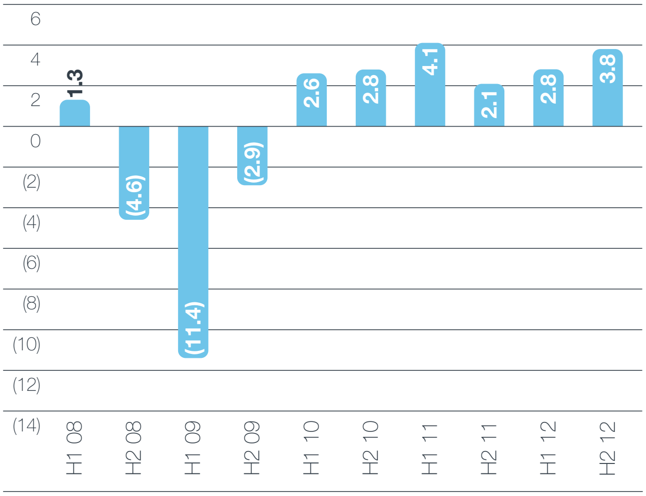
Nigel George
Executive Director

Valuation performance %



[1] Quarterly Index

Rental value growth[1] %



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

The Group's investment portfolio was valued at £2.86bn at 31 December 2012. Over the year, there was a valuation surplus of £183.3m, before deducting lease incentive adjustments of £8.0m, giving a total movement of £175.3m. The underlying valuation increased by 7.3%, a similar level to the 7.6% in 2011, and outperformed both the IPD Index for central London offices in 2012, which increased by 4.1%, and the wider market, the IPD All UK Property Index, which declined by 3.1%.

Within the investment portfolio, seven principal projects were on site during 2012, comprising five developments and two major phased refurbishments. These progressed well, not only on the construction and delivery side, but also through lettings to companies including Burberry, Ticketmaster and Unilever. They are detailed further under the Portfolio Management section. Reflecting this activity, the developments increased in value by 20.6% during the year to £185.3m, and the refurbishments by 8.7% to £202.3m, giving a total increase in value of 14.1% to £387.6m. They represented about 14% of the investment portfolio at the year end and delivered around a quarter of the portfolio's valuation surplus. Excluding projects, the balance of the portfolio increased by 6.3% on an underlying basis.

In addition to the strong performance from our projects, the ERV of the portfolio increased steadily over the year and we were active on the asset management front. Both were also important contributors to the valuation uplift. Our ERVs rose by 6.7% and followed a 6.3% increase in 2011. Examples of our asset management accomplishments were lease management and letting activity at 1 Oliver's Yard EC2 and the Tea Building E1. This gave rise to valuation increases over the year at these buildings of 17% and 10% respectively.

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance £m	Total floor area m²	Available floor area m²	Project floor area m²
West End							
Central	1,892.6	66	6.4	105.2	278,900	2,100	31,200
Borders	269.6	10	12.6	29.8	52,900	800	300
	2,162.2	76	7.2	135.0	331,800	2,900	31,500
City							
Borders	603.9	21	10.2	53.6	143,800	2,400	28,900
Central London	2,766.1	97	7.8	188.6	475,600	5,300	60,400
Provincial	93.5	3	(5.3)	(5.3)	30,200	900	–
Total portfolio 2012	**2,859.6**	**100**	**7.3**	**183.3**	**505,800**	**6,200**	**60,400**
2011	2,646.5	100	7.6	181.7	501,400	5,700	64,800

[1] Properties held throughout the year

7.3%

underlying valuation increase

6.7%

increase in underlying estimated rental value

Our central London properties, which comprise 97% of the portfolio, increased by 7.8%, with those in the West End rising by 7.2% and the City border assets by 10.2%. The balance of the portfolio at 3% is our non-core Scottish holdings. These principally comprise a retail warehouse park and agricultural land and saw a 5.3% valuation decline in 2012, reflecting the general outward movement of yields in provincial markets.

The portfolio's net initial yield, on an EPRA basis, was 4.3%, which rises to 4.8% on a "topped-up" basis, following contractual uplifts and expiry of rent free periods. The true equivalent yield was 5.55% and compares with 5.61% at the end of 2011. This reflects the general stabilisation of yields for London assets.

The portfolio remains highly reversionary. At 31 December 2012 the Group's net annualised rental income was £119.6m, with the portfolio's ERV at £175.0m, representing £55.4m of reversion. Of this, £21.0m is contractual, from our scheme pre-lets, such as 1 Page Street at £5.3m, fixed rental uplifts from the expiry of rent free periods and contracted stepped rentals. A further £21.1m is from available space at year end and our projects where we are on site. The balance of the reversion of £13.3m was from future rent reviews and lease renewals.

On a total property return basis the portfolio delivered 11.6% compared with 13.4% in 2011. The IPD Total Return Index was 8.8% for Central London Offices and 2.7% for All UK Property.

> "We believe our prospects are good and look forward to the future with confidence."
>
> **John Burns**
> **Chief Executive**

PROPERTY REVIEW
PORTFOLIO MANAGEMENT

Our mid-market offices in the West End and City borders continue to prove attractive to tenants, as evidenced by another excellent year for lettings in 2012.

Paul Williams
Executive Director

Letting activity

We let 340,300 sq ft (31,610m²) at an annual rent of £13.3m and an average premium of 7.6% to the December 2011 ERV. For comparison, in 2011, when we had more space available, we concluded 495,700 sq ft (46,050m²) of lettings at an annual rent of £16.7m.

Excluding short-term lettings where we want to retain flexibility for future projects, and which constituted 8% by income and 11% by floorspace, open market lettings were at an average premium of 9.2% to the December 2011 ERV.

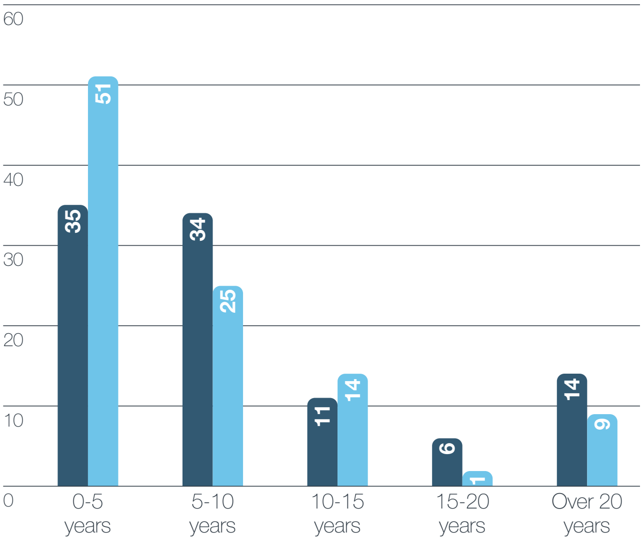
Annual income from lettings in the first half of the year totalled £8.9m, and £4.4m in the second half. Overall lettings in the second half were settled at an average premium of 10.3% to the June 2012 ERV and for open market lettings at a 12.3% premium. On the basis of our most recent activity and ongoing tenant interest we see no slowdown in the rental market for our properties.

During 2012 we maintained a low vacancy rate, and 55% of our transactions by income were pre-lets, including most of our large transactions: Burberry at 1 Page Street SW1, Unilever at Buckley Building EC1 and BrandOpus at 1 Stephen Street W1. We also saw, and continue to see, strong interest in our available space from the TMT sector with 27% of our lettings in 2012 from this sector and 68% if wider creative industries are included.

The principal transactions in 2012 were as follows:

- **1 Page Street SW1** This 127,000 sq ft (11,800m²) building was pre-let to Burberry for 20 years with a break in year ten at a rent of £5.3m pa, rising to a minimum of £5.7m pa after five years. The initial rent equates to £50 per sq ft (£540 per m²) on the best space, which compares with £38 per sq ft (£410 per m²) on similar space that Burberry currently occupies in our adjacent 162,700 sq ft (15,110m²) Horseferry House.

Profile of rental income expiry[1] %



■ No lease breaks exercised
■ Lease breaks exercised at first opportunity

[1] Based upon annualised net contracted rental income of £119.6m

340,300 sq ft
of lettings at

£13.3m pa

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		119.6
Contractual rental increases across the portfolio	21.0	
Letting 6,200m^2 available floor area	2.1	
Completion and letting 60,400m^2 of project floor area	19.0	
Anticipated rent review and lease renewal reversions	13.3	
Portfolio reversion		55.4
Potential portfolio rental value		175.0

Average unexpired lease length[1] Years

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

Lettings

7.6%

above December 2011 ERV

- **4 & 10 Pentonville Road N1** Within two months of practical completion, 47,700 sq ft (4,430m^2) of this 55,000 sq ft (5,110m^2) building was let for 12 years to Ticketmaster at £45 per sq ft (£484 per m^2) on the top floor and £42.50 per sq ft (£457 per m^2) on a typical mid-level floor, giving a total rent of £1.9m pa. The completion of this development, opposite our Angel Building where rents of £42 per sq ft (£452 per m^2) were achieved in 2011, continues the regeneration of this increasingly vibrant part of Islington.

- **Buckley Building EC1** Unilever has pre-let 21,100 sq ft (1,960m^2) of office space paying £45 per sq ft (£484 per m^2) on the ground floor and £40 per sq ft (£431 per m^2) on the lower ground to give a total rent of £0.9m pa, 27% above the 30 June 2012 ERV of this space. The lease is for 12 years with a tenant's break at year six on payment of a 12 month rent penalty. A rent free period equivalent to 12 months was granted, with an additional six months if the break is not exercised.

  We are formally launching the marketing of the remaining 64,000 sq ft (5,900 m^2) in this building in April 2013, following completion of the project.

- **1-2 Stephen Street W1** BrandOpus is more than tripling its occupation in our portfolio and will relocate to 18,300 sq ft (1,700m^2) in Phase 1 of the 1-2 Stephen Street refurbishment from 5,000 sq ft (460m^2) at the nearby Charlotte Building W1. It took 15,400 sq ft (1,430m^2) in 2012 and an additional 2,900 sq ft (270m^2) in February 2013. It will occupy ground and lower ground floor offices under a 10-year lease, paying a rent of £0.8m pa, representing £52.50 per sq ft (£565 per m^2) on the prime space.

- **Johnson Building EC1** Existing media tenant Grey took an additional 11,100 sq ft (1,030m^2) on a nine-year lease at £45 per sq ft (£485 per m^2) or £0.50m pa, taking its total presence in the building to 61,100 sq ft (5,680m^2).

PROPERTY REVIEW PORTFOLIO MANAGEMENT
CONTINUED

We maintain the appeal of the space that we offer by anticipating and reflecting the evolving needs of occupiers. Many tenants now tend to occupy their space in a more open-plan way than in a traditional office design, with informal meeting spaces and coffee bars worked into the fit-out. In May 2012, a Derwent London team visited San Francisco and Silicon Valley to meet tenants who may look to expand into the UK as well as to see the occupational requirements of creative industries there. By following and understanding such trends, we are able to create tomorrow's space today and we were pleased to see three Derwent London tenants (Innocent Drinks, Mind Candy and Mother) featured in the Daily Telegraph's list of "Top 10 coolest offices in UK".

Asset management

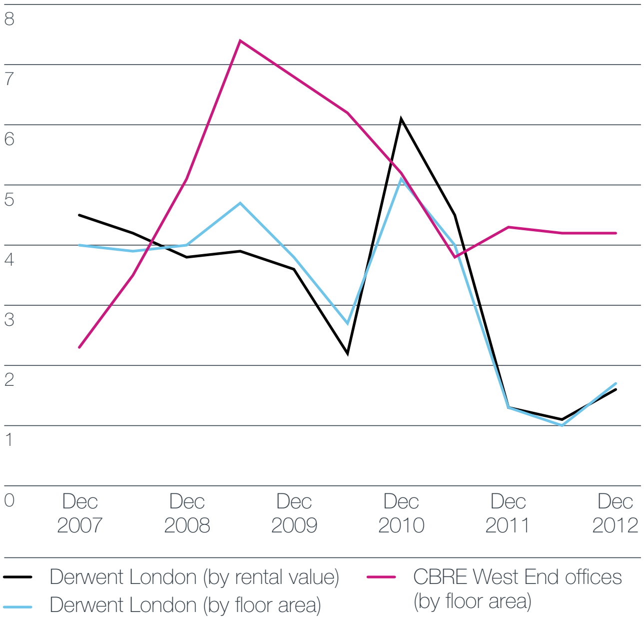
We continued to see strong tenant retention in 2012. During the year £14.7m pa of rental income was subject to lease expiries and breaks. After excluding space taken back for identified projects and disposals, representing £4.2m pa, 81% of this income was retained and 5% re-let during 2012.

The Group concluded 65 rent reviews, lease renewals and regears in the year on 580,000 sq ft (53,900m²) at a combined rent of over £21m pa, at an uplift of 7.7% on the previous income.

In several cases these asset management initiatives built in longer leases and/or future rental uplifts, underpinning certainty of income for Derwent London. The most significant of these were:

- **1 Oliver's Yard EC2**
  Sage Publications Four leases covering 40,300 sq ft (3,740m²) were extended from two to seven years. Annual stepped rental increases were introduced, taking the rent from £1.0m pa to £1.4m pa over the term, equating to between £25 per sq ft (£270 per m²) and £36 per sq ft (£390 per m²) and comparing favourably with a December 2011 ERV of £28.50 per sq ft (£305 per m²). Lease incentives equated to a four month rent free period.
  TelecityGroup Leases on 68,700 sq ft (6,380m²) were extended from five to 25 years, with rent increases from £1.8m pa in 2012 to £2.3m pa in 2017 which equates to £45 per sq ft (£485 per m²) on the best space. Thereafter the rent increases by 2.5% pa compounded every five years. Lease incentives equated to a 12 month rent free period.
- **8 Fitzroy Street W1**
  This 148,000 sq ft (13,750m²) building is let to Arup until 2033. We replaced five-yearly upward-only rent reviews with an annual stepped increase taking the rent from £6.2m pa (£45 per sq ft/ £485 per m² on a typical floor) to £8.4m pa (£60 per sq ft/ £645 per m²) in 2021. There is then an upward-only, open-market rent review with the income increasing 2.5% pa thereafter.

Five-year vacancy trend %



81%
of income subject to breaks and expires retained

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per m^2	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End						
Central	76.5	314	7.9	22.6	107.0	7.8
Borders	11.1	214	0.2	5.8	17.1	9.2
	87.6	297	8.1	28.4	124.1	7.9
City						
Borders	27.8	249	12.8	5.4	46.0	5.9
Central London	115.4	284	20.9	33.8	170.1	7.4
Provincial	4.2	144	0.2	0.5	4.9	6.4
Total portfolio 2012	**119.6**	**274**	**21.1**	**34.3**	**175.0**	**7.4**
2011	113.1	264	20.6	26.7	160.4	7.2

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

Reversionary potential

There remains a wide variety of additional opportunities for asset management initiatives. Our central London average passing office rent remains modest at £26.04 per sq ft (£280 per m^2) and offers an excellent platform for income growth. Allowing for contracted increases, the average "topped-up" rent is £31.18 per sq ft (£336 per m^2). This compares with an ERV as at 31 December 2012 of £35.64 per sq ft (£384 per m^2).

Rent collection

Rent collection remains prompt, with 97% of rent collected on average within 14 days of the due date for the year and 98% for the fourth quarter.

Vacancy rate

With strong tenant demand and retention, the vacancy rate in the portfolio remained low throughout 2012, even following the completion of 4 & 10 Pentonville Road N1. At the end of December 2012 the vacancy rate was 1.6% on an EPRA basis by rental value, measured as space immediately available for occupation, or £2.1m pa (31 December 2011: 1.3% or £1.9m pa). Since the year end half of this has either been let or is under offer. By available floorspace, the year end vacancy rate was 1.7% (31 December 2011: 1.3%). This compares favourably with the CBRE central London rate that stood at 5.3% at the end of 2012.

Our six projects where we are on site have an estimated net rental value of about £22m pa and upon completion, after adjusting for pre-lets, would increase the Group's vacancy rate of available space to around 11% measured by rental value. Much of this space will not be ready for occupation until towards the end of 2014.

Activity in 2013 to date

In 2013 to date a further 241,900 sq ft (22,470m^2) has been let or placed under offer generating income of £2.3m pa. This includes:

- **132-142 Hampstead Road NW1**
  The property, which under current plans is expected to be compulsorily purchased as part of the construction of HS2, is undergoing a "light touch" refurbishment. UCL (University College London) has taken a pre-let of all 217,000 sq ft (20,160m^2) at a total rent of £1.6m pa with 3% pa uplifts fixed in March 2016 and September 2018. The lease is for a 10-year term with mutual rolling breaks from September 2018 and has a rent free period equivalent to 15 months. This letting bolsters net income whilst retaining flexibility for development if circumstances change.

> "Derwent has proved an extremely flexible landlord during the 14 years we have been at Grosvenor Place, enabling us to take on additional space as we have grown."
>
> **Jupiter Fund Management**
> **1-5 Grosvenor Place SW1**

PROPERTY REVIEW
INVESTMENT ACTIVITY

Our purchases in 2012 reflect our strategy of buying income-producing assets off low capital values with medium-term refurbishment opportunities. Our 2012 disposals were either non-core properties or sold to facilitate future development.

David Silverman
Executive Director

Acquisitions

During 2012 we added to the portfolio and recycled capital in specific situations. Our purchases, totalling £101.5m including costs, reflect our strategy of buying income-producing assets off low capital values with medium-term refurbishment opportunities and, in most cases, adjacent or very close to existing assets.

The main acquisitions in 2012 were:

	Francis House, 11 Francis Street SW1	9 and 16 Prescot Street E1	25 and 29 Berners Street W1
Total cost	£30.6m	£23.2m	£36.5m
Tenure	Freehold	Freehold	Leasehold expiring in 2080
Size	57,000 sq ft (5,300m²)	111,000 sq ft (10,310m²)	79,500 sq ft (7,390m²)
Annual passing rent	£1.6m rising to £1.7m from 2015	£1.3m	£1.4m
Net initial yield	5.1% rising to 5.4%	5.5%	3.8%
Tenant	Channel Four Television	Co-operative Bank plc (9 Prescot Street)	PRS for Music
Lease expiry	2020	2015 (9 Prescot Street)	2016
Opportunity	Synergy with our adjacent ownership at Greencoat & Gordon House and 6-8 Greencoat Place in Victoria.	Refurbishment and extension potential in an improving area of Whitechapel.	Refurbishment and redevelopment potential at these Fitzrovia properties when the tenant vacates.

Average acquisition cost

£365 per SQ FT

Riverwalk House[1]

75%

valuation uplift over previous three years

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[1] Including 232-242 Vauxhall Bridge Road and excluding profit overage

Disposals

In 2012, Derwent London recycled properties for net proceeds of £160.9m at a profit of £6.9m. This included the sale of three buildings, as well as the disposal of a 50% interest in 1-5 Grosvenor Place SW1.

	1-5 Grosvenor Place SW1	**Riverwalk House and 232-242 Vauxhall Bridge Road SW1**	**Triangle Centre, Bishopbriggs, Scotland**
Net proceeds	£66.9m	£76.6m	£16.6m
Tenure	50% of 150-year lease	Freehold	Freehold
Annual net passing rent	£3.1m (50% share of total rent on the building)	£0.2m	£1.3m
Net disposal yield	4.5 %	Mostly vacant	8.1%
Comment	Interest sold as part of the regear onto a new 150-year headlease, unlocking potential redevelopment.	Sold for residential development. Profit overage retained. Combined valuation increased by 75% over the past three years.	75,500 sq ft (7,010m²) shopping centre north of Glasgow.

Since the year end we have exchanged contracts for the sale of our holdings in Commercial Road E1, where we have secured planning permission for a 417-room student accommodation block together with 26,500 sq ft (2,460m²) of offices, for £17.0m before costs.

PROPERTY REVIEW PROJECTS

At the year end the Group was on site at six major projects totalling 495,000 sq ft and during the year was granted planning permissions totalling 655,000 sq ft.

Simon Silver
Executive Director

As at 31 December 2012 the Group was on site at six major projects totalling 495,000 sq ft (46,000m²). These projects had capital expenditure to complete at that date of £91m, and a total estimated rental value of about £22m. Of this space, 37% has been pre-let. In 2013 a further three projects totalling 422,000 sq ft (39,200m²) and with capital expenditure to complete of £168m will commence.

Planning success in 2012

We saw continued planning success in 2012, with six schemes totalling 655,000 sq ft (60,850m²) granted planning permission. The schemes that received permission are:

Size	Nature of development	Project status	Comment
1 Oxford Street W1			
275,000 sq ft (25,500m²)	Offices, retail and theatre	Start from 2017	The Group holds an option to repurchase this site which is above Tottenham Court Road station, following the completion of Crossrail work.
1 Page Street SW1			
127,000 sq ft (11,800m²)	Office refurbishment and extension	Underway	100% pre-let to Burberry.
Riverwalk House and 232-242 Vauxhall Bridge Road SW1			
175,000 sq ft (16,300m²)	Residential	Underway	Sold in 2012. Group retains a profit overage in this development.
Queens, 96-98 Bishop's Bridge Road W2			
21,400 sq ft (1,990m²)	Residential	Started in 2013	16 residential units and ground floor retail space, to be built on the corner of Bishop's Bridge Road and Queensway. Completion is due in Q4 2014.
18-30 Tottenham Court Road W1			
41,000 sq ft (3,810m²)	Retail extension	Start 2014	New and improved double-height frontage, providing modern units. Area being transformed through the Crossrail project.
73 Charlotte Street W1			
15,500 sq ft (1,440m²)	Residential	Start 2013	11 units, two of which are affordable, and 1,900 sq ft (180m²) of offices.

4 & 10 Pentonville Road N1

60%

return on development cost

Projects completed in 2012
4 & 10 Pentonville Road N1 was completed in Q3 2012 and 87% of this 55,000 sq ft (5,110m^2) office refurbishment was let to Ticketmaster.

p38

Projects under construction
The following projects were under construction at the end of 2012:

	Size of project		Capital expenditure to complete	Completion date	Pre-let
	sq ft	m^2	£m		
Developments					
Buckley Building, 49 Clerkenwell Green EC1	85,000	7,900	3	Q1 2013	25% to Unilever
1 Page Street SW1	127,000	11,800	15	Q2 2013	100% to Burberry
Turnmill, 63 Clerkenwell Road EC1	70,000	6,500	19	Q3 2014	
40 Chancery Lane WC2	100,000	9,300	34	Q4 2014	
Phased refurbishments					
Morelands Buildings, 5-27 Old Street EC1	27,000	2,510	2	Q1 2013	66% to AHMM
1-2 Stephen Street W1	86,000	7,990	18	2013/14	21% to BrandOpus
Total	**495,000**	**46,000**	**91**		

Other projects
As at 31 December 2012, 282,600 sq ft (26,250m^2) of minor refurbishments were underway, including at 3-4 Hardwick Street EC1 and 132-142 Hampstead Road NW1. These had an ERV of £4.0m pa and capital expenditure to complete of £8m.

Projects starting in 2013
During 2013 the Group will be increasing the proportion of development in the portfolio by commencing the following projects, totalling 422,000 sq ft (39,200m^2):

- **80 Charlotte Street W1**
  At 385,000 sq ft (35,800m^2), this is the largest regeneration that Derwent London has undertaken and will be one of the biggest schemes in the West End when construction starts towards the end of 2013. The main development occupies a 1.4 acre (0.6 hectare) site that will provide 320,000 sq ft (29,730m^2) of offices and retail with 17,000 sq ft (1,580m^2) of private residential units and retail adjacent at 67 Whitfield Street W1. Two other nearby properties will deliver a further 12,000 sq ft (1,110m^2) of offices and 36,000 sq ft (3,340m^2) of residential space, 42% of which will be affordable housing.

  We are currently undertaking implementation works on site and expect to sign the main construction contract in the summer. A deed to obtain vacant possession of 80 Charlotte Street from Saatchi & Saatchi in the second half of 2013 has been signed. Overall capital expenditure is estimated at around £150m and the project is due for delivery in 2016.

- **Queens, 96-98 Bishop's Bridge Road W2**
  This 21,400 sq ft (1,990m^2) residential scheme in Westbourne Grove comprises 16 units and 2,700 sq ft (250m^2) of retail space. Having received planning permission in 2012, work has now started.

- **73 Charlotte Street W1**
  This is another medium-sized residential-led development of 15,500 sq ft (1,440m^2) to provide 11 units, two of which are affordable, together with 1,900 sq ft (180m^2) of offices. Work is expected to start at this site after the receipt of vacant possession in the second half of 2013.

PROPERTY REVIEW PROJECTS
CONTINUED

Projects for 2014 and beyond
The Group has five further projects with planning permission with a total proposed net lettable area of 0.9 million sq ft (86,000m²) and a similar level of projects under appraisal, providing additional opportunities to grow the business. We have made important progress on the following projects:

- **White Collar Factory, City Road EC1**
  We have constructed a 3,000 sq ft (280m²) working prototype or "live suite" to showcase the White Collar Factory principles of the 16-storey office building that form the core of this proposed development. Marketing presentations begin here in April and we intend to move into full scale construction of the exciting 289,000 sq ft (26,800m²) regeneration at this major corner site at Old Street which we now expect to build on a speculative basis.

  The White Collar Factory will be a 21st century interpretation of the industrial buildings of the past. It will be of concrete frame construction with exposed thermal-mass, a generous 3.5 metre floor to ceiling height, and well-insulated façades that are tailored to deal with solar gain. With openable windows, cooling will also be provided by chilled water pipes embedded in the concrete slabs with air ventilation and simple lighting suspended underneath. Our engineers estimate that, as a result of its design, the building will use 25% less carbon and save up to 25% in operating costs compared with that of a traditional office building.

  The existing buildings are currently occupied on flexible lease terms allowing vacant possession from the end of 2013. The capital expenditure to complete this project will be around £100m.

- **55-65 North Wharf Road W2**
  Having recently entered into an option agreement with the freeholder and long leaseholder to restructure our headlease, this redevelopment has moved a step closer. On exercise of the option, the freeholder will grant Derwent London a 999-year lease over the 240,000 sq ft (22,300m²) office element of the site and grant the long leaseholder a similar lease over the 73,000 sq ft (6,800m²) of residential and retail space. Derwent London will pay a modest ground rent of 2.5% of income and will undertake to build the basement of both buildings. The long leaseholder will contribute £5m towards the construction cost of the basement.

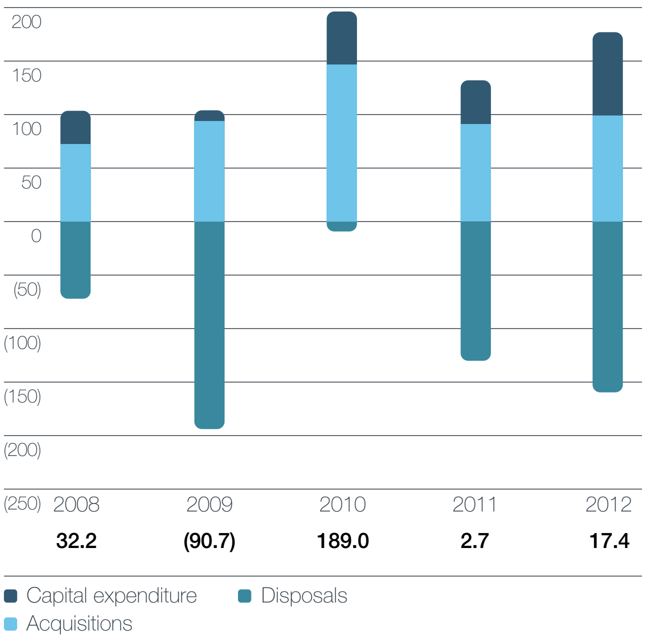
  This site represents one of the best locations within Paddington Basin yet to be developed and will provide a striking architectural addition to the regeneration of the wider area. It is directly opposite one of the entrances to the National Rail, Crossrail and London Underground services at Paddington.

  Current letting terms allow for possession from 2014 onwards and Derwent London's capital expenditure to undertake this project would be around £100m.

- **1-5 Grosvenor Place SW1**
  In March 2012, Derwent London and Grosvenor announced a joint venture and headlease regear at 1-5 Grosvenor Place. This collaboration unlocks a major prime redevelopment opportunity of over 260,000 sq ft (24,000m²) at this unique 1.5 acre (0.6 hectare) site. Working with Grosvenor a professional advisory team has been assembled, with the expectation of submitting a planning application for this mixed-use redevelopment including a hotel, residential and offices within the next year. The joint venture partners are working towards choosing an operator for the hotel element from the current shortlist over the next few months. In the meantime the property is almost fully let on flexible leases.

We have started studies on our recent acquisitions at Prescot Street E1 and Berners Street W1 to formulate our longer term plans for these buildings.

Net investment £m



> "65% of London professionals are convinced they would work harder, put in more overtime and generally do a better job if their office environments were more comfortable and more desirable."
>
> **De Vono 2012**

Project summary

2013-2014	Existing net income per annum £m	Pre-scheme area m^2	Proposed area m^2	Capital expenditure to complete £m	Potential delivery Year
On site at December 2012					
Buckley Building EC1	2.5	7,000	7,900	3	Q1 2013
1 Page Street SW1	–	11,000	11,800	15	Q2 2013
Turnmill, 63 Clerkenwell Road EC1	–	3,800	6,500	19	Q3 2014
40 Chancery Lane WC2	–	5,700	9,300	34	Q4 2014
1-2 Stephen Street W1[1]	–	7,700	8,000	18	2013/14
Morelands Buildings EC1[1]	–	1,600	2,500	2	Q1 2013
	2.5	36,800	46,000	91	
2013					
Queens, 96-98 Bishop's Bridge Road W2	–	–	2,000	12	Q4 2014
73 Charlotte Street W1	0.2	1,200	1,400	9	Q2 2015
80 Charlotte Street W1	5.1	22,500	35,800	147	Q2 2016
	5.3	23,700	39,200	168	
2014					
18-30 Tottenham Court Road W1	0.7	2,200	3,800	11	Q2 2015
	0.7	2,200	3,800	11	
Planning and design				27	
Other				37	
Total (2013-14)	**8.5**	**62,700**	**89,000**	**334**	

2015 onwards	Existing net income per annum £m	Pre-scheme area m^2	Proposed area m^2	Earliest possession Year	Comment
White Collar Factory EC1	0.8	11,500	26,800	2013	Consented – offices
Jaeger House, Broadwick Street W1	0.8	2,300	c.2,800	2013	Appraisal studies
Wedge House SE1	0.3	3,600	7,400	2013	Consented – offices
55-65 North Wharf Road W2	1.5	7,200	22,300	2014	Consented – offices
Balmoral Grove Buildings N7	0.6	6,200	c.18,600	2014	Appraisal studies
9 Prescot Street E1	1.2	9,600	c.10,500	2015	Appraisal studies
1-5 Grosvenor Place SW1	6.2	15,600	c.24,200	2014/16	Appraisal studies – Grosvenor JV
25 and 29 Berners Street W1	1.4	7,300	c.9,300	2016	Appraisal studies
1 Oxford Street W1	–	–	25,500	c.2017	Consented scheme – office, retail and theatre
Network Building W1	2.1	5,900	c.9,300	2017	Appraisal studies
19-35 Baker Street W1	4.6	13,600	c.23,200	c.2018	Appraisal studies – Portman JV
Premier House SW1	1.9	5,800	c.7,400	2018	Appraisal studies
	21.4	88,600	187,300		
Adjustments for JVs	(5.2)	(13,900)	(22,500)		
Total (2015 onwards)	**16.2**	**74,700**	**164,800**		
Total pipeline	**24.7**	**137,400**	**253,800**		

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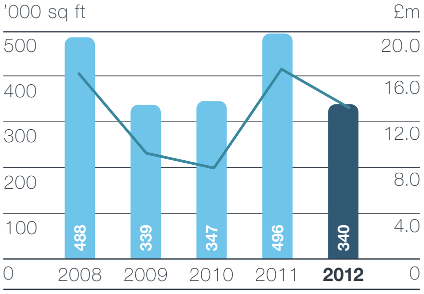
[1] Part building

CONSISTENT DELIVERY

Throughout the economic turbulence of the past five years our business model has proved to be resilient, we have adhered to our strategy and consistently delivered against it. This is demonstrated in our performance when compared to our peers and a variety of industry measures.

Lettings



Since 2008 we have let over 2.0m sq ft producing annual income of £64m. This represents more than a third of the current portfolio and more than half of the current year's income. This activity has driven the EPRA vacancy rate down to 1.6% by the end of 2012 with an average vacancy rate of 3.1% over the period.

📖 **p38**

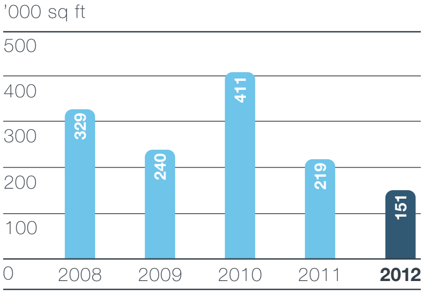
Planning permissions

Planning permissions totalling 2.9m sq ft have been granted in the past five years. To put this in context, the current portfolio is 5.4m sq ft. 495,000 sq ft of major projects were underway at the end of 2012 and 2.2m sq ft is yet to be commenced.

The largest of these unbuilt permissions is 80 Charlotte Street which will commence towards the end of 2013 creating 385,000 sq ft of modern space in our Fitzrovia village.

📖 **p44, p50**

Projects completed



From the Johnson Building to the Charlotte Building to the Angel Building and into the future with 80 Charlotte Street we are continually learning from past experience in terms of innovation, design, sustainability and tenant requirements.

Over £330m of capital expenditure was incurred from 2008 to 2012 and we plan to invest around £350m over the next three years.

📖 **p44**

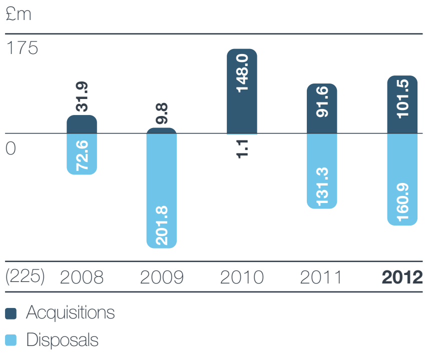
66.4%

five-year total shareholder return compared to our benchmark of (18.4)%

> "As a result of our financial resilience during the past five years we have been able to progress and accelerate our development programme. Significant planning permissions have been obtained and we have delivered a pipeline of value-enhancing projects."

John Burns
Chief Executive Officer

Investment activity



Following the merger with London Merchant Securities in 2007 the Group undertook a number of significant disposals. Since then, in addition to the investment in the enlarged development programme, we have been active in the recycling of mature and non-core properties in our portfolio and re-investing the proceeds in capital expenditure and acquisitions.

p42

2.9m SQ FT
of planning permissions since 2008

Performance

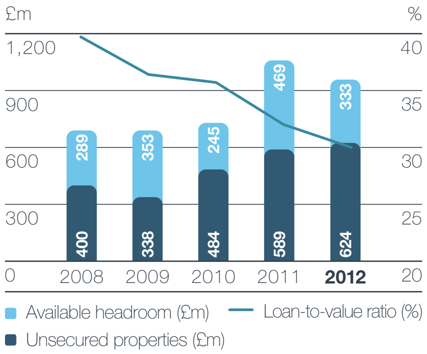
	Five-year figures
Total return	**15.5%**
Benchmark	(55.2)%
Total property return	**26.6%**
IPD Central London Offices Index	16.2%
IPD All UK Property Index	2.7%
Total shareholder return	**66.4%**
FTSE All-Share Real Estate Investment Trust Index	(18.4)%

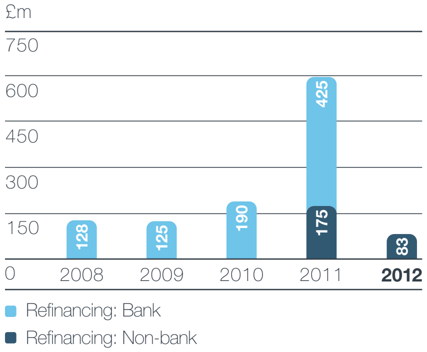
With consistently strong results over the past five years we have exceeded all of our KPI return measures.

Throughout the financial downturn we have maintained a low LTV ratio in absolute terms and relative to our peers. Consequently we avoided the deeply discounted rights issues to which many listed property companies had to resort during this period.

p26

Financing





This period has been notable for a lack of generally available finance for many companies. For a small number of chosen borrowers, of which Derwent London is one, funds have been accessible on reasonably attractive terms while, for others, the facilities are either unavailable or are priced at a significant premium.

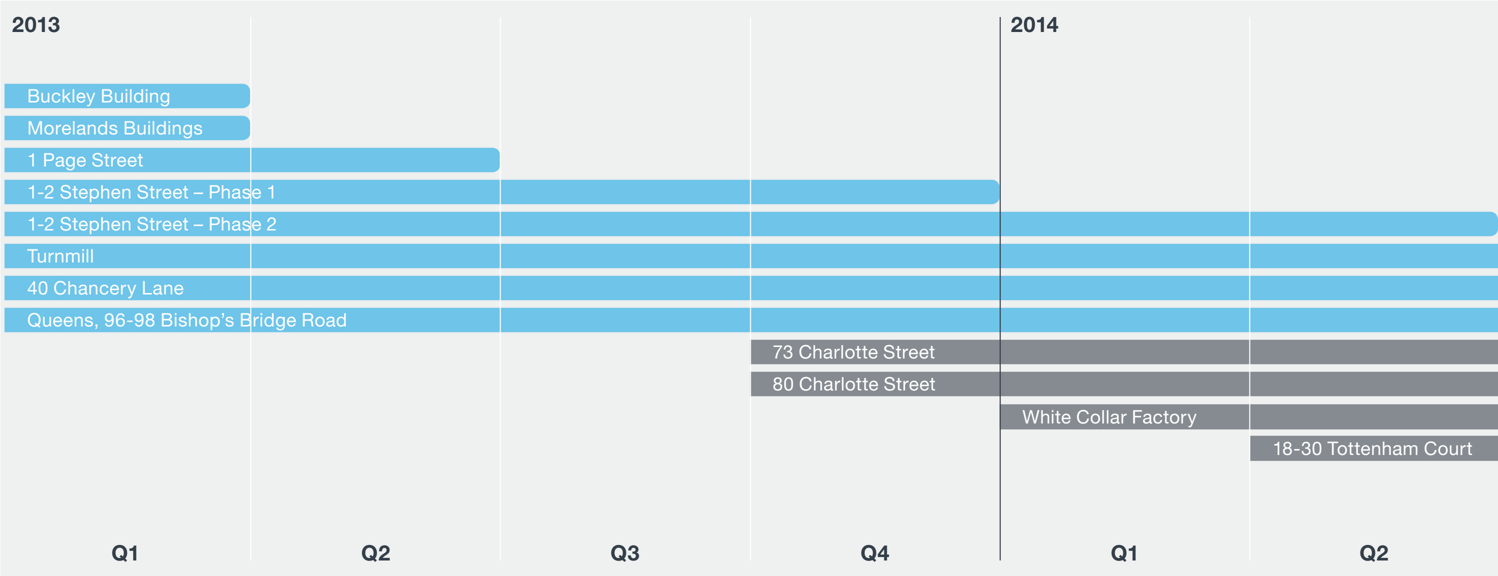
£1.1bn of debt has been refinanced since 2008 with £258m financed with non-bank sources.

We have maintained a significant level of available headroom under our financing facilities so that we are able to act quickly and decisively when opportunities arise. In order to retain flexibility we have also preserved a significant level of uncharged property.

We maintain a close dialogue with our existing relationship banks as well as the wider investor and lender community.

p58

DEVELOPMENT PIPELINE



Buckley Building EC1

Village: Clerkenwell
Type: Offices
Proposed size: 85,000 sq ft (7,900m²)
Completion date: 2013
Architect: Buckley Gray Yeoman
Letting status: 25% pre-let
Capital expenditure to complete: £3m

The refurbishment of this old industrial building, infilling the atrium to create an additional 13% of office space, is nearing completion. The entrance has been located to a more prominent position on Clerkenwell Green and the ground floor façade has been remodelled. 21,100 sq ft (1,960m²) has been pre-let to Unilever.

Morelands Buildings EC1

Village: Clerkenwell
Type: Offices/Retail
Scheme size: 27,000 sq ft (2,510m²)
Completion date: 2013
Architect: AHMM
Letting status: 66% pre-let
Capital expenditure to complete: £2m

Home to a variety of creative industries, Morelands is a combination of former warehouses and workshops, redesigned to create a unified building, surrounding a U-shaped courtyard. Following a headlease extension, this multi-let building has undergone a rolling refurbishment. The latest phase of 27,000 sq ft (2,510m²) includes an extension to create a penthouse office floor.

1 Page Street SW1

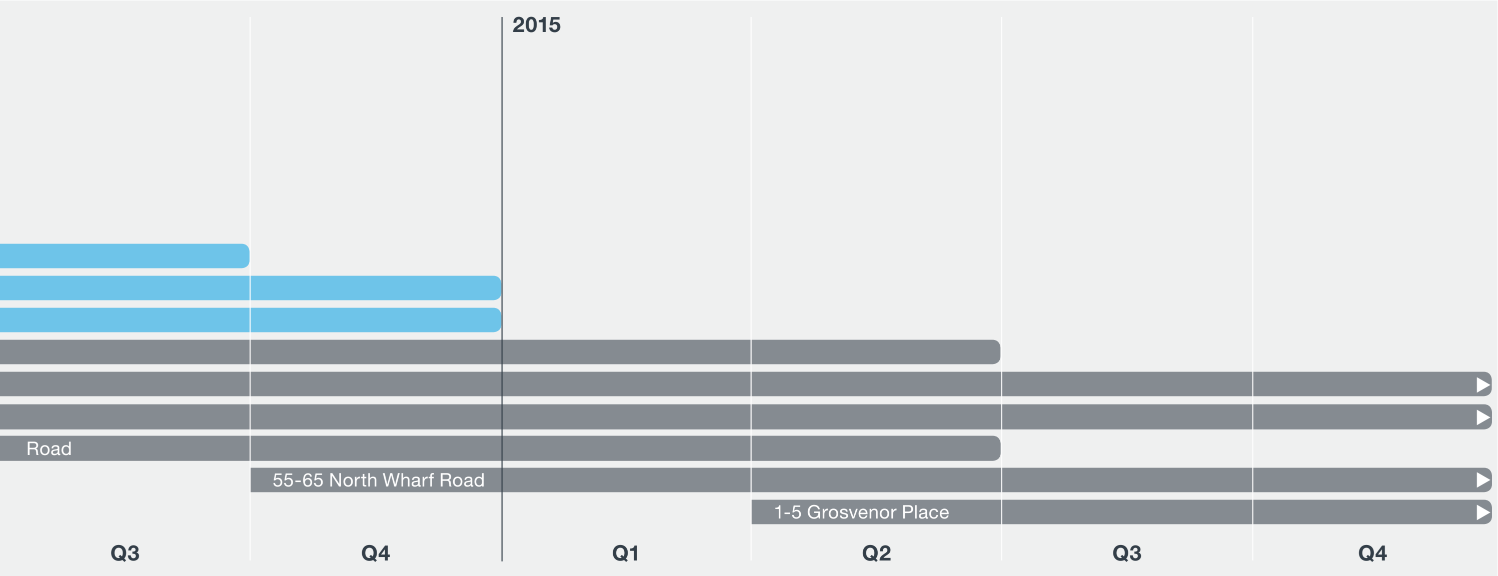
Village: Victoria
Type: Offices
Proposed size: 127,000 sq ft (11,800m²)
Completion date: 2013
Architect: PLP Architecture
Letting status: 100% pre-let
Capital expenditure to complete: £15m

Derwent London acquired 1 Page Street in March 2011 and pre-let the entire building to Burberry in February 2012. The regeneration of this building has increased the floor area by 8% whilst the previous glazed exterior has been replaced with an elegant masonry façade.

1-2 Stephen Street W1 Phases 1 and 2

Village: Fitzrovia
Type: Offices
Scheme size: 86,000 sq ft (7,990m²)
Completion date: 2013/2014
Architect: ORMS
Letting status: 21% pre-let
Capital expenditure to complete: £18m

Our plans to give this property a new identity, transforming the building, are progressing well. Phase 1 is reconfiguring the office entrance with a curved glass and metal screen façade with a canopy blade overhead and creating 23,000 sq ft (2,140m²) of ground and lower ground floor offices. Phase 2 is underway and consists of the refurbishment of 63,000 sq ft (5,850m²) on the upper floors to provide better quality space.



Turnmill EC1

Village: Clerkenwell
Type: Offices
Proposed size: 70,000 sq ft (6,500m^2)
Completion date: 2014
Architect: Piercy & Co
Capital expenditure to complete: £19m

This new office development will occupy a prominent corner site near Farringdon station, which is currently being redeveloped as a Crossrail interchange. It will be constructed out of unique Kolumba brick providing an exceptional top floor with terraces and spectacular views, as well as a 70% increase in floorspace from the previous building.

40 Chancery Lane WC2

Village: Holborn
Type: Offices/Retail
Proposed size: 100,000 sq ft (9,300m^2)
Completion date: 2014
Architect: Bennetts Associates
Capital expenditure to complete: £34m

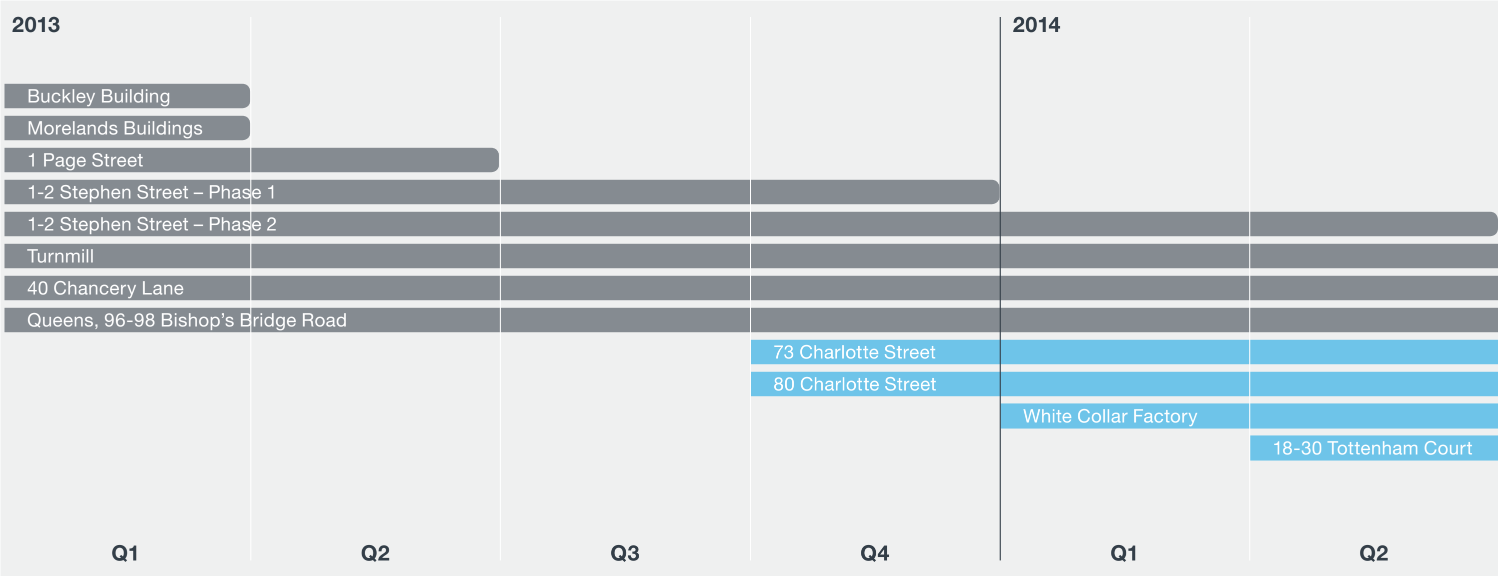
Having regeared the headlease, we have begun redevelopment of this large prime Midtown corner site to create a striking new six-storey office building. The development will include a new retail unit and a publicly accessible landscaped courtyard that will bring natural daylight to the office floors.

Queens W2

Village: Paddington
Type: Residential/Retail
Proposed size: 21,400 sq ft (1,990m^2)
Completion date: 2014
Architect: Stiff + Trevillion
Capital expenditure to complete: £12m

This prominent site, home of the former Queens Cinema, is situated on the corner of Bishop's Bridge Road and Queensway. The proposals retain the art deco façade and will create 16 high-quality apartments and 2,700 sq ft (250m^2) of ground floor retail space. A notable element of the scheme is the provision of a new public space on the opposite side of Queensway.

DEVELOPMENT PIPELINE
CONTINUED



73 Charlotte Street W1

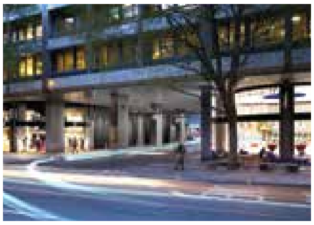
Village: Fitzrovia
Type: Residential/Offices
Proposed size: 15,500 sq ft (1,440m²)
Completion date: 2015
Architect: DSDHA
Capital expenditure: £9m

In November 2012 we received approval for the redevelopment of 73 Charlotte Street to provide 11 residential units, two of which are affordable, and 1,900 sq ft (180m²) of offices. We expect to start work on site after the receipt of vacant possession in the second half of 2013.

80 Charlotte Street W1

Village: Fitzrovia
Type: Offices/Residential/Retail
Proposed size: 385,000 sq ft (35,800m²)
Completion date: 2016
Architect: Make
Capital expenditure: £147m

The regeneration of 80 Charlotte Street will be Derwent London's largest scheme to date. The main development occupies a 1.4 acre island site in the heart of our Fitzrovia estate and together with two nearby properties will provide 312,000 sq ft (28,980m²) of offices and 49,500 sq ft (4,600m²) of residential units as well as retail space of 23,500 sq ft (2,180m²). The landmark building will include a "pocket park" based on the New York Paley Park concept. This scheme will augment the wider regeneration and improvement of the Fitzrovia village.



18-30 Tottenham Court Road W1

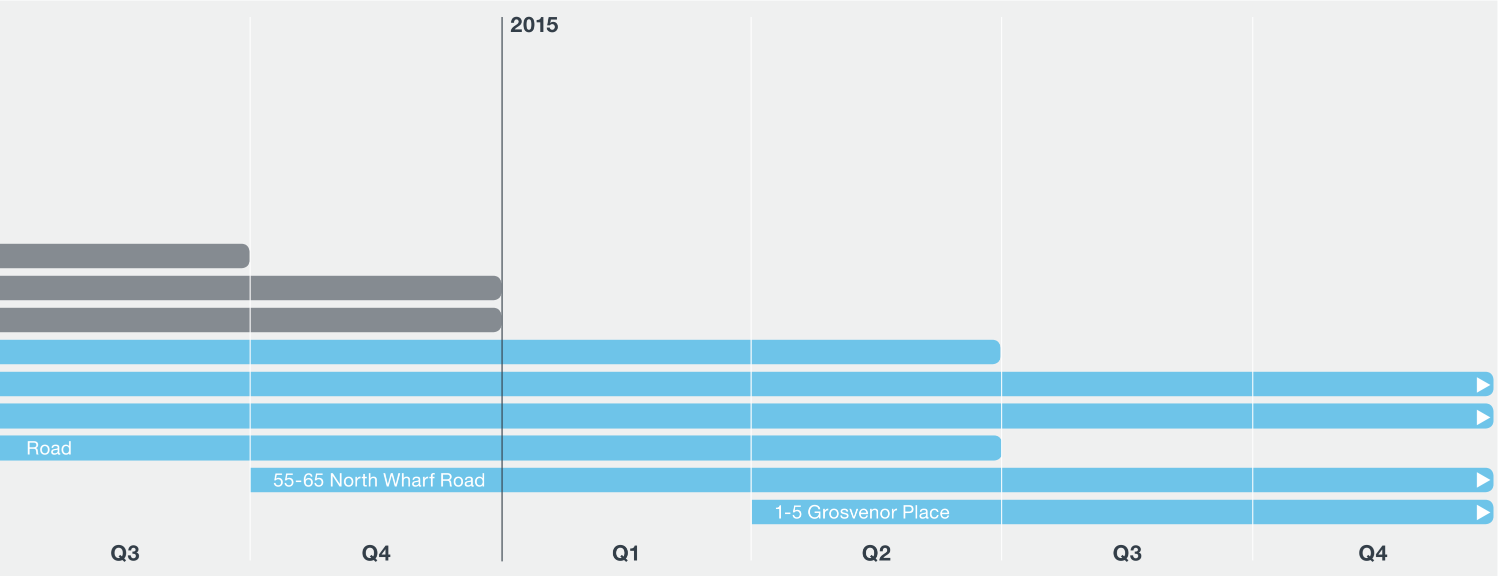
Village: Fitzrovia
Type: Retail
Scheme size: 41,000 sq ft (3,810m²)
Completion date: 2015
Architect: ORMS
Capital expenditure: £11m

In October 2012 we received permission to extend the retail units at 18-30 Tottenham Court Road where there are lease breaks in 2014, to create a new and improved double-height frontage for the existing colonnade and to convert basement car parking to retail. This project, part of the regeneration of 1-2 Stephen Street, will increase the retail space by 70% and provide modern units on this busy and improving shopping street.

White Collar Factory City Road EC1

Village: Old Street
Type: Offices
Proposed size: 289,000 sq ft (26,800m²)
Architect: AHMM
Capital expenditure: c£100m

This scheme, facing onto the Old Street roundabout, includes a 16-storey office building incorporating our White Collar Factory concept. This will include high ceilings, good daylight and natural ventilation with opening windows that negate the need for full air-conditioning. This leads to lower building and fit out costs as well as lower running costs and a healthier working environment. Construction of a working prototype, built to demonstrate the attributes of the scheme, has recently been completed and we now intend to move this project forward on a speculative basis.

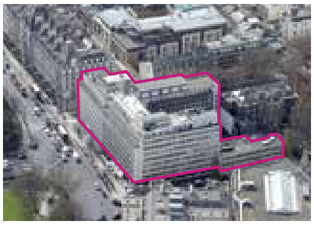


55-65 North Wharf Road W2

Village: Paddington
Type: Offices/Residential
Proposed size: 240,000 sq ft (22,300m^2)
Architect: Fletcher Priest
Capital expenditure: c£100m

In January 2013, Derwent London entered into an option agreement with the freeholder and head leaseholder of 55-65 North Wharf Road. This unlocks the opportunity to develop the 240,000 sq ft (22,300m^2) of offices, with the head leaseholder developing the associated 73,000 sq ft (6,800m^2) of residential accommodation and retail space.

The scheme, which could commence from 2014, represents one of the last major sites within Paddington Basin to be developed and will provide a striking architectural addition to the area.



1-5 Grosvenor Place SW1

Village: Belgravia
Type: Mixed
Proposed size: 260,000 sq ft+ (24,200m^2)
Architect: Hopkins

In March 2012 we announced that we had agreed a joint venture over 1-5 Grosvenor Place with Grosvenor. The Group restructured its headleases into a new 150-year term and sold 50% of this interest to Grosvenor. The existing buildings occupy an underutilised flagship site of 1.5 acres at Hyde Park Corner. Professional advisors have been appointed by the joint venture partners and detailed proposals for the site, likely to include offices, residential space and a luxury hotel are being drawn up with a view to submitting a planning application within the next year.

FINANCE REVIEW

In 2012, EPRA net asset value per share increased by 10.9%, EPRA profit before tax rose slightly despite the increase in development activity and all our planned refinancing was completed.

Damian Wisniewski
Finance Director

Over many years, Derwent London's business model has been to add value through refurbishment, redevelopment and asset management while also maintaining a secure recurring income stream, modest leverage and strong interest cover. The strength of our balance sheet plus the confidence that comes from robust five-year financial projections supports the business and enables us to plan to take account of anticipated market cycles. This allows decision-taking that fuels growth backed by a careful assessment of the risks.

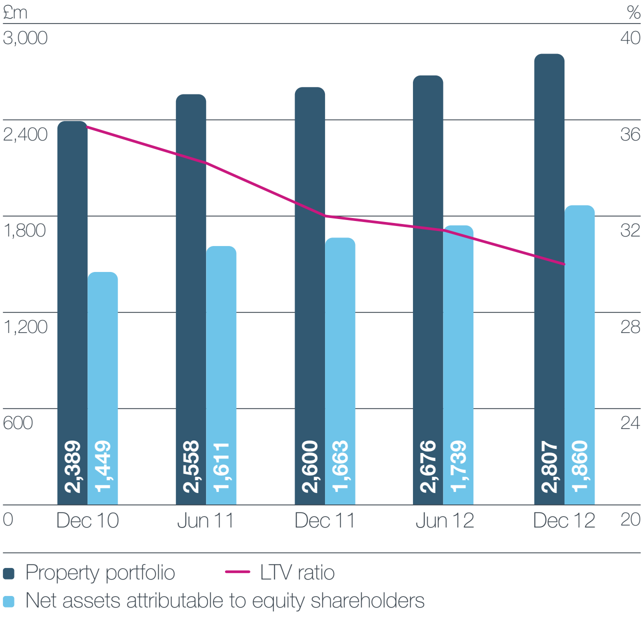
The calendar year 2012 was, in many respects, a significant one for London. Sterling was seen as a relative safe haven while many of the other European economies were under extreme pressure. Notwithstanding the lack of overall economic growth in the UK and the domestic tension caused by a deficit reduction programme, policies exercised by Government and the Bank of England helped to encourage capital flows into London. This strengthened sterling and forced interest rates down to exceptionally low levels though there has been some correction in both measures in the first few weeks of 2013.

Another notable feature of the year for our sector was the continued and substantial disparity between availability and cost of capital for those seen as strong borrowers and the rest. In particular, investors associated with London continued to defy the gloom which was felt in much of the rest of the UK.

All these factors meant that this was a good environment for stronger companies within our sector to refinance. In January 2012, we completed £300m of bank facilities signed in December 2011. In addition, Derwent London secured £83m of inexpensive long-term debt in August 2012, tapping a source which we had not previously utilised.

We also continued our policy of recycling capital through asset sales, improved our overall interest cover and drove rental growth in the portfolio with like-for-like net rental growth up by 8.2% on the year. With low voids and much of the existing development pipeline de-risked through pre-lets, we have been able to push ahead with important new projects such as Turnmill EC1 and 40 Chancery Lane WC2 and to commit to our largest scheme to date at 80 Charlotte Street W1. In addition, we have now agreed to accelerate the development of the White Collar Factory at City Road EC1.

Investment property, net assets and gearing



10.9%
increase in EPRA NAV

Net asset value

EPRA net asset value per share increased to 1,886p per share as at 31 December 2012 from 1,701p a year earlier, an increase of 10.9%. This was largely due to another pronounced rise in value of the property portfolio which showed an increase of 170p per share after allowing for capital expenditure and lease incentives.

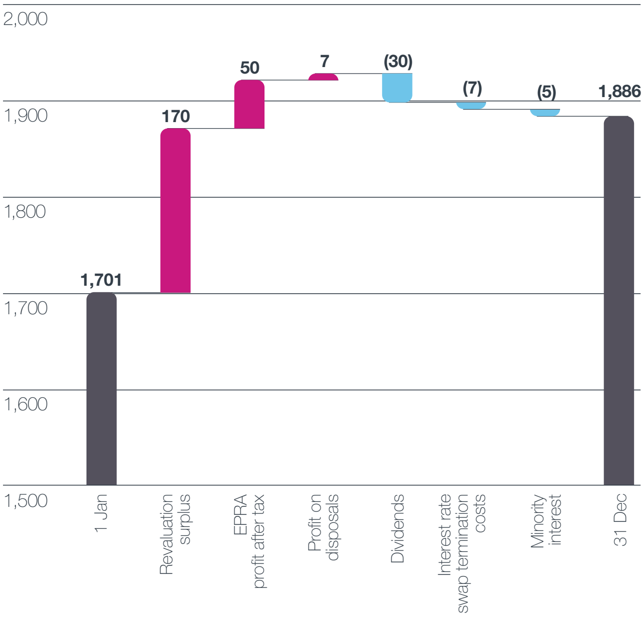
The main components of the rise in NAV per share were as follows:

	2012 p	2011 p
Revaluation surplus	**170**	169
EPRA profit after tax	**50**	51
Dividends paid (net of scrip)	**(30)**	(25)
Profit on disposals	**7**	36
Interest rate swap termination costs	**(7)**	–
Minority interest on revaluation	**(5)**	(4)
	185	227

The Group's net asset value rose to £1.92bn at 31 December 2012 from £1.71bn in 2011 and the value of the property portfolio increased to £2.86bn.

The mark-to-market cost of derivatives rose by 2p per share to 53p, offset by a fall in deferred tax liabilities of 5p as certain historical tax issues were successfully resolved. The fair value of fixed rate liabilities increased by a net 20p per share as medium-term interest rates fell significantly. These combined to bring the Group's EPRA triple net asset value per share to 1,775p at 31 December 2012, an increase of 10.5% over the year.

EPRA net asset value per share p



2012	**1,701**	**170**	**50**	**7**	**(30)**	**(7)**	**(5)**	**1,886**
2011	1,474	169	51	36	(25)	–	(4)	1,701

EPRA net asset value

	2012 £m	per share p	2011 £m	per share p
Net assets	**1,918.0**		1,714.5	
Less minority interest	**(57.6)**		(51.8)	
Net assets attributable to equity shareholders	**1,860.4**	**1,824**	1,662.7	1,636
Adjustment for:				
Deferred tax on revaluation surplus	**4.1**		8.8	
Less share of minority interest	**(0.9)**		(0.6)	
Fair value of derivative financial instruments	**54.3**		51.9	
Less share of minority interest	**(1.8)**		(1.6)	
Fair value adjustment to secured bonds	**17.8**		18.6	
	73.5		77.1	
EPRA adjusted net assets – undiluted	**1,933.9**	**1,896**	1,739.8	1,712
– diluted		**1,886**		1,701

FINANCE REVIEW
CONTINUED

Income statement

Derwent London's development activity increased significantly through 2012. We invested £77.5m in the portfolio and capitalised £4.9m of interest against figures of £41.0m and £2.2m, respectively, in 2011. This rebalancing of activity away from the income-producing part of the portfolio inevitably has an impact upon rental income. However, through strong lettings and asset management together with careful financial planning, we have sought to ensure that earnings are broadly flat year on year.

EPRA recurring profit before tax increased slightly to £52.5m for the year ended 31 December 2012 compared with £52.3m in 2011. The prior year benefited from the write-back of £1.8m of current tax provisions and this is the main reason why EPRA earnings per share fell back a little to 50.4p from 51.6p in 2011.

Although we have extended our development programme and recycled capital through property disposals, gross rental income increased slightly during the year by £0.6m to £124.7m. New lettings in 2012 added £3.7m of income in the year while rent reviews, mainly in relation to the settlement of the 2011 review at 8 Fitzroy Street W1, added a further £3.5m. Lettings and reviews from the previous year also contributed £4.6m. Properties acquired in 2012 increased 2012 rent by £1.6m while the loss of income from properties sold was £6.1m. Lease breaks, expiries and voids reduced rent by a further £6.7m. Premiums received from lease surrenders vary from year to year and, on a net basis, were only £0.1m in 2012 against £1.4m in 2011.

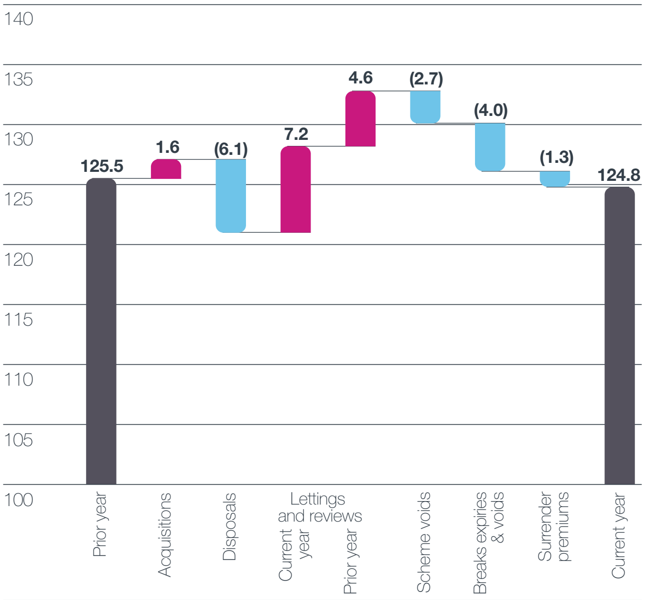
Property outgoings overall were £10.3m, a 5.1% increase from the previous year, part of which is due to the higher ground rent paid at 1-5 Grosvenor Place SW1 following the regear. The prior year also benefited from £1.6m of rates credits; in 2012 the recovery of overpaid rates was £0.3m. Surrender premiums paid to tenants fell to £0.2m in 2012 compared to £1.9m in 2011.

The real progress in rental income levels across the portfolio can be demonstrated by the strong increase in like-for-like property income where the effects of acquisitions, disposals and developments are taken out; EPRA net rental income increased by 8.2% during the year. A full analysis is shown in the table opposite.

Total administrative expenses increased to £25.1m from £22.7m in 2011. Development activity and a greater emphasis on areas such as sustainability have increased headcount again in 2012. If the provision for cash-settled share options is excluded, the underlying increase in administrative expenses was 7.5%, due mainly to increased staff costs. The Group's consistently strong performance over recent years has contributed to an increase in the provision for long-term management incentives of £0.7m compared to 2011.

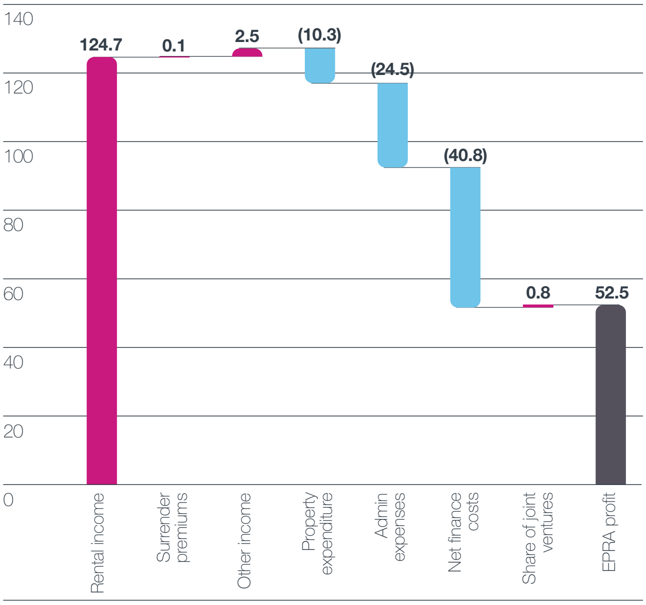
Net finance costs fell to £40.8m from £43.2m in the prior year due partly to a higher amount capitalised on projects, £4.9m against £2.2m last year. Interest costs have fallen by £2.3m compared to the previous year, offset by an increase of £2.5m in charges for arrangement and non-utilisation fees.

Gross property income £m



2012	**125.5**	**1.6**	**(6.1)**	**7.2**	**4.6**	**(2.7)**	**(4.0)**	**(1.3)**	**124.8**
2011	119.4	7.2	(1.6)	6.0	4.3	(4.4)	(6.2)	0.8	125.5

EPRA profit £m



2012	**124.7**	**0.1**	**2.5**	**(10.3)**	**(24.5)**	**(40.8)**	**0.8**	**52.5**
2011	124.1	1.4	2.0	(9.8)	(22.8)	(43.2)	0.6	52.3
Variance	0.6	(1.3)	0.5	(0.5)	(1.7)	2.4	0.2	0.2

EPRA like-for-like net rental income

	Properties owned throughout the year £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2012					
Rental income	112.3	3.6	1.4	7.4	124.7
Property expenditure	(5.7)	(0.6)	(0.9)	(3.4)	(10.6)
Net rental income	**106.6**	**3.0**	**0.5**	**4.0**	**114.1**
Other[1]	2.6	–	0.1	0.2	2.9
Net property income	**109.2**	**3.0**	**0.6**	**4.2**	**117.0**
2011					
Rental income	105.3	1.7	7.3	9.8	124.1
Property expenditure	(6.8)	(0.4)	(1.6)	(2.1)	(10.9)
Net rental income	**98.5**	**1.3**	**5.7**	**7.7**	**113.2**
Other[1]	1.8	–	0.8	1.9	4.5
Net property income	**100.3**	**1.3**	**6.5**	**9.6**	**117.7**
Increase based on gross rental income	**6.6%**				**0.5%**
Increase based on net rental income	**8.2%**				**0.8%**
Increase based on net property income	**8.9%**				**(0.6)%**

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

The overall profit before taxation for the year was £228.1m, only marginally lower than the equivalent figure of £233.0m in 2011. Overall revaluation gains in 2012 were £175.3m, of which £174.4m passed through the income statement and property disposals, principally of Riverwalk House SW1 and half of 1-5 Grosvenor Place SW1, also yielded a profit of £6.9m. The profit on disposal of investment of £3.9m related to the realisation of exchange gains on the liquidation of our last remaining US subsidiary. The company had been inactive for several years and, as an equal and opposite amount passed through the statement of comprehensive income, this has no impact upon EPRA net asset value or recurring earnings.

In addition to the previously reported £6.3m cost of breaking £130m of interest rate swaps in January 2012, a further £0.6m of breakage costs were incurred in August when the other £65m swap associated with the old £375m loan facility was also closed out. The original loan and swap expiry dates were all in March 2013. The cost of "fair valuing" our other interest rate swaps was £2.4m for the year.

Taxation

As a REIT, we do not generally pay corporation tax as much of our business activity is tax-exempt. However, part of the business, principally the unelected share in our joint venture with the Portman Estate, is outside the REIT; the 2012 tax charge relating to this non-REIT part of the business was £0.8m, comprising a tax charge of £0.6m and a prior year tax charge of £0.2m. Following successful discussions with HMRC bringing much of our Scottish land holdings within the REIT structure, we have been able to write back £4.4m of the Group's deferred tax liability during the year. In addition, an increase in available tax losses enabled a further £1.3m to be released. The rate of UK corporation tax falls again to 23% on 1 April 2013 reducing our year end deferred tax balance by £0.4m, though this has been offset by the increased deferred tax liability on the year's revaluation gains.

8.2%

increase in EPRA like-for-like net rental income

FINANCE REVIEW
CONTINUED

Debt facilities

	£m	December 2012 £m	Maturity
6.5% secured bonds		175	March 2026
3.99% secured loan		83	October 2024
2.75% unsecured convertible bonds		175	July 2016
Overdraft		2.5	On demand
Committed bank facilities			
Term	28		June 2018
Term/revolving credit	90		December 2017
Revolving credit	150		January 2017
Revolving credit	150		January 2017
Revolving credit	125		November 2015
Revolving credit	100		April 2015
Term/revolving credit	125		April 2014
		768	
Total debt facilities		**1,203.5**	

All facilities are secured unless noted otherwise

Financing

By the start of 2012, we had already refinanced the majority of the bank facilities falling due for repayment in 2013. As noted in last year's report, this had been accomplished with the issue of £175m of convertible bonds and £425m of new or enlarged revolving credit facilities signed with relationship lenders. During the year, we have completed the remaining refinancing requirement while also continuing with our strategic aims of diversifying sources of debt, lengthening average debt maturities and managing the cost and risk profile associated with our debt facilities.

In January 2012, the new bank facilities documented in December 2011 were drawn. These consisted of a £150m fully revolving five-year facility provided equally by RBS and Barclays and a new £150m fully revolving five-year facility provided by Lloyds Bank to replace and extend their existing £100m bilateral facility.

In January 2012, we also broke two interest rate swaps with a principal amount of £130m and a weighted average rate of about 5.0% which were due to expire in March 2013. The cost of breaking these swaps was £6.3m, a small discount to the additional interest charge that we would have incurred through the remaining life of the swaps. At the same time, we swapped a total of £70m to April 2019 at just under 2.0%.

Following the repayment in January 2012 of the last loan notes associated with the London Merchant Securities PLC ("LMS") transaction, the £32.5m unsecured "loan note" facility due to expire in June 2012 was also cancelled. In addition, the Group's overdraft facility was reduced to £2.5m from £10.0m in July 2012.

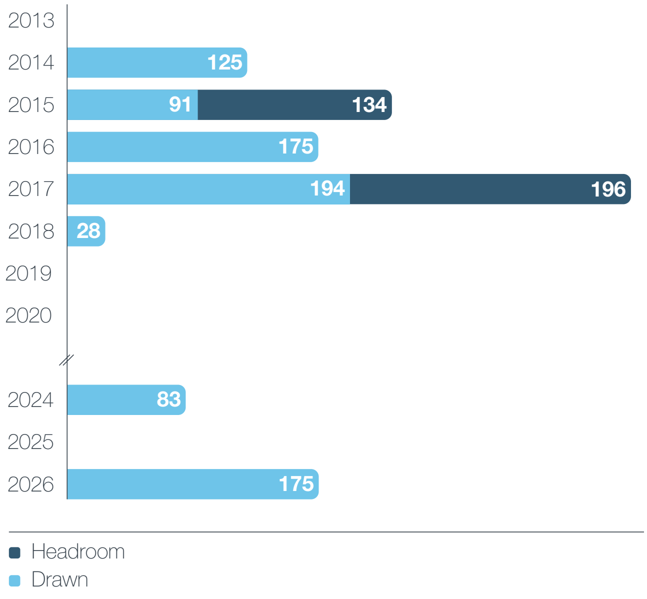
Proportion of non-bank debt

50%

> "With low levels of leverage, good interest cover and sufficient headroom under our facilities, the Group is in robust financial shape."

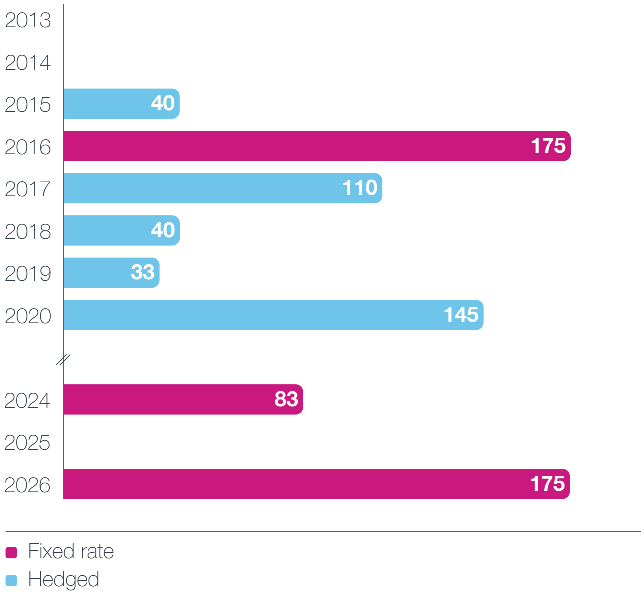
Damian Wisniewski
Finance Director

Maturity profile of loan facilities
As at 31 December 2012[1] £m



[1] Excludes £2.5m overdraft facility

Maturity profile of fixed and hedged debt
As at 31 December 2012 £m



Refinancing of the 2013 debt maturities was completed in August with a new £83m fixed rate loan from Cornerstone, part of the Mass Mutual Financial Group. The new loan was the first transaction entered into by Cornerstone in the UK. It is fixed at 3.99% until October 2024, 210 basis points above the reference gilt, and is secured on two properties in Fitzrovia. The initial loan-to-value (LTV) ratio was 48.3%, the LTV covenant is set at 70% and there is no amortisation to expiry. At the same time, the remaining £95m of drawn debt from the £375m facility arranged by LMS in 2006 was prepaid and the residual £150m facility was cancelled. A termination cost of £0.6m was incurred on a £65m interest rate swap running to March 2013 leaving a forward start swap of £65m at just under 2.0% from March 2013 to April 2019. Overall, these actions reduced the level of swaps at the balance sheet date by £125m compared to a year earlier, while the amount of fixed rate debt increased by £83m. This overall reduction of £42m moved the proportion at fixed rates or swapped to 92% from 98% at the end of 2011 and provided a weighted average cost of debt of 4.88% on an IFRS basis, or 4.63% using the cash cost of the convertible bonds. This is slightly lower than a year earlier when it was 4.91% and 4.65%, respectively. With the high cost of breaking swaps, the proportion at fixed rates continues to be slightly higher than our target range of 60% to 85%.

Available undrawn facilities totalled £333m at 31 December 2012 in addition to which there was £624m of uncharged property. The equivalent figures at 31 December 2011 were £469m and £589m respectively.

Maturity profiles of financing facilities and interest rate hedges as at 31 December 2012 are provided above. The Group's new long-dated loan has increased the weighted average length of unexpired debt to 6.1 years at 31 December 2012 compared to 5.3 years in 2011.

Weighted average length of unexpired debt

6.1 years

FINANCE REVIEW
CONTINUED

Net debt

	2012 £m	2011 £m
Cash	(4.4)	(3.5)
Bank overdraft	–	–
Revolving bank facilities	437.5	477.0
Secured loan	83.0	–
Unsecured loan	–	31.4
Loan notes	–	1.1
Secured bonds 2026	175.0	175.0
Fair value and issue costs	16.4	17.2
Unsecured convertible bonds 2016	175.0	175.0
Issue costs, equity component and unwinding of discount	(10.0)	(12.6)
Leasehold liabilities	8.9	7.4
Bank loan arrangement costs	(6.6)	(3.5)
Net debt	**874.8**	864.5

Net debt and cash flow

Notwithstanding further significant investment in the pipeline and £101.5m of new properties acquired in the year, property disposals ensured that net debt only increased by £10.3m during the year to £874.8m. The principal properties disposed of were Riverwalk House, 232-242 Vauxhall Bridge Road SW1, the Triangle Centre in Scotland and a half share in 1-5 Grosvenor Place SW1, which together provided a cash inflow of £161.0m after costs.

Combined with this small increase in debt, the strong rise in property values meant that the Group's overall LTV ratio fell to 30.0% from 32.0% in 2011. NAV gearing fell correspondingly from 50.4% to 45.6%. We focus more on interest cover than absolute levels of leverage and are pleased to report that gross interest cover rose to 351% for the year compared to 307% in 2011. Net interest cover, after property and administrative expenses and treating interest capitalised as an expense, increased to 223% in 2012 from 214% in the previous year.

Dividend

Our approach is to manage dividend distribution in a way that maintains sufficient dividend cover out of recurring earnings but which also reflects a progressive and sustainable level of growth for our shareholders. The Board has been able to recommend an 8.4% increase in the proposed final dividend to 23.75p per share of which 18.75p will be paid as a PID with the balance of 5.00p as a conventional dividend. This will bring the total dividend for the year to 33.70p per share, an increase of 2.35p or 7.5% over 2011. A scrip dividend alternative will continue to be offered.

Interest cover ratio

351%

Gearing and interest cover ratio

	2012 %	2011 %
NAV gearing	**45.6**	50.4
Loan-to-value ratio	**30.0**	32.0
Interest cover ratio	**351**	307

Debt summary

	2012 £m	2011 £m
Bank loans		
Floating rate	**69.5**	15.4
Swapped	**368.0**	493.0
	437.5	508.4
Non-bank debt		
Floating rate loan notes	**–**	1.1
Fixed rate secured loan	**83.0**	–
Fixed rate secured bonds 2026	**175.0**	175.0
Fixed rate unsecured bonds 2016	**175.0**	175.0
	433.0	351.1
Total	**870.5**	859.5
Hedging profile (%)		
Fixed	**50**	41
Swaps	**42**	57
	92	98
Weighted average cost of debt (%)[1]	**4.63**	4.65
Weighted average cost of debt (%)[2]	**4.88**	4.91
Weighted average maturity of facilities (years)	**5.4**	4.4
Weighted average maturity of borrowings (years)	**6.1**	5.3
Weighted average maturity of swaps (years)	**5.8**	5.0
Available headroom	**333**	469
Uncharged properties	**624**	589

[1] Convertible bonds at 2.75%

[2] Convertible bonds on IFRS basis

> "Our approach is to manage dividend distribution in a way that maintains sufficient dividend cover out of recurring earnings but which also reflects a progressive and sustainable level of growth for our shareholders."

Damian Wisniewski
Finance Director

MAKING A

SUSTAINABILITY

DIFFERENCE

MAKING A DIFFERENCE: SOCIO-ECONOMIC IMPACT AT THE ANGEL BUILDING

Following the final letting at the Angel Building, Derwent London commissioned a study to evaluate the socio-economic impact of the regeneration of the building on key local stakeholders.

The project

We took a tired, 1980s building of 162,000 sq ft (15,050m^2) set back from the road and hidden behind trees and shrubs and transformed it into a thriving hub. We added substantially more floorspace and reconnected the frontage with the streetscape. A striking new façade was clad in a high-performance, double-glazed system with solar shading and restaurants and retail units on the ground floor.

The completed building has attracted a number of awards, including being shortlisted for the prestigious RIBA Stirling prize.

Size

262,000SQ FT

Saved in the retained structure

7,400

tonnes CO$_2$e


2


1

1 **Reflection of the London skyline**

2 **Before:** Looking south west to the building prior to conversion.

3 **After:** Same view after the reinvention of the of the building was complete.

4 **Angel Kitchen:** The atrium contains a bustling café used by tenants and visitors alike.

Sustainable design features

- Concrete: clever reuse with new concrete using pulverised fuel ash from power stations
- Lifts: use 50% less energy than conventional systems
- Timber: sourced from sustainably managed sources
- Displacement ventilation system: uses heat recovery to generate 44% less CO_2 than fan coil system
- DALI lighting system: sensors adapt to changing daylight and occupancy
- Biomass boilers: can provide 50% of the heating
- Rainwater harvesting and waterless urinals
- Biodiversity: mature trees were retained and additional trees planted
- Cycles: spaces for over 200 with showers and changing facilities


4


3

Enhancing the public realm

£935,000 was invested in the public realm through section 106 payments. This included increasing the number of trees and opening up the area in front of the building, providing an attractive pavement area with cafés and plenty of bustling street life.

Public realm investment

£935,000

Fostering economic prosperity

The building, which had been vacant for a number of years, now holds around 1,700 employees, who each spend an average of £620 per year in the vicinity. According to the report this led to a 19% increase in revenue to local businesses. In addition during construction around 60 new local jobs were created or supported.

1,700

Employees

> “Love the communal spaces, particularly the roof terrace, the smooth exposed concrete and well-chosen artworks.”

Employee
Cancer Research UK


5

Awards

The Angel Building has won many awards for the quality of its architecture and design.

- 2011 RIBA Stirling prize shortlist
- AIA Excellence in Design Award
- BCO National Refurbished/Recycled Workplace Award 2011 and the BCI Judges' Special Award 2011. New London Award 2011
- BCO Refurbished/Recycled Workplace Award 2011
- RIBA London Award 2011
- Rejuvenation category of the Concrete Society Awards 2011
- Offices category of the 3RAwards 2011
- New London Architecture Award 2011

6

7

Well-being for occupiers

Employees like working in the building. The study found that employees felt 50% more engaged and positive and enjoyed work relationships 20-25% more than in their previous buildings. Light public spaces, well-designed informal spaces with well-chosen artwork all contributes to this sense of well-being.

Local business revenue increased by

19%

5 Café society: Enjoying the sun outside Jamie's Italian.

6 Roof terrace: Accessible for all tenants with great views across London.

7 Entrance to the atrium: Artwork by Teresita Fernández is in the background.

> "Overall this scheme has transformed what was a very dreary building which provided very little socio-economic benefits and did little for its context or the setting of historic buildings, into something that is a very positive asset to the area, and which has raised the standard of office and associated public realm provision for Islington. It is also an exemplar of what can be achieved by retro-fit."

Alec Forshaw
Conservation Planning Officer

Enhancing local communities

According to the study, local residents' well-being has increased by up to 5% since the building was completed, given the improved accessibility and economic mix that the building provides. Crime in the immediate area has fallen by over 35%.

Fall in local crime

35%

8

9

8 Atrium: Seating area for informal meetings.

9 Enhanced public realm: Extensive planting as part of regeneration.

> "Interior is excellent… green forecourt is pleasant."

Local resident

SUSTAINABILITY

Sustainability has always been at the heart of Derwent London's business model. We endeavour to create buildings that not only offer best-in-class design, but are also efficient and flexible.

Paul Williams
Executive Director

We look at each property individually on its merits, and attempt to retain as much of the building as possible through the regeneration process. This approach not only saves embodied carbon but development cost as well.

We also look beyond the bricks and mortar to ensure our designs have a positive impact on the surrounding community. To this end, we have explored what impacts our developments have from both a social and economic perspective. In 2012, we commissioned a report looking at the socio-economic benefits from one of our recently completed projects, the regeneration of the Angel Building EC1. Details of this are set out in a case study in the preceding pages.

We always look to improve and we value the feedback received from our stakeholders on sustainability matters. In addition to ongoing informal feedback in 2012, we commissioned formal surveys of our employees and tenants to understand more about what is important to them in the sustainability arena and help us shape our evolving sustainability agenda.

We set out below how we have performed against our 2012 targets and what our principal targets for the year ahead will be. I believe that we have performed well and have a solid baseline to work from in 2013. To this end, we welcome our sustainability manager, John Davies. His arrival presents us with the opportunity to redefine our vision and approach and further integrate sustainability into our business model.

In 2013, we are also launching a number of initiatives to reinforce our already strong relationships with the communities in which our buildings are located. For example, we are investing in a community engagement programme in Fitzrovia to support a number of community initiatives in Camden. In addition, we are taking part in a programme with the London Borough of Camden through Fitzrovia Youth In Action providing work experience for two young people aged between 15-19. Moreover, we are supporting the London Evening Standard's "Ladder for London" campaign by taking on an apprentice at one of our buildings.

As with previous years, 2012 has seen us garner external recognition for our sustainability efforts. We received a silver award in the inaugural EPRA Sustainability Reporting Awards and were listed as a sector leader in the European peer group (office sector) in the 2012 Global Real Estate Sustainability Benchmark.

As well as the summary of our sustainability performance set out in the following pages, we also produce a more detailed sustainability report, which can be found online at www.derwentlondon.com/sustainability.

> "There is a good reason why sustainable buildings are also known as 'high-performance buildings'; they not only tend to save on running costs, there is also growing evidence that they can increase productivity and well-being for occupants through improved lighting and air quality."

Sustainable Office Design –
A white paper by Beatrice K. Otto

Previous spread:
Bike shed at Angel Building EC1

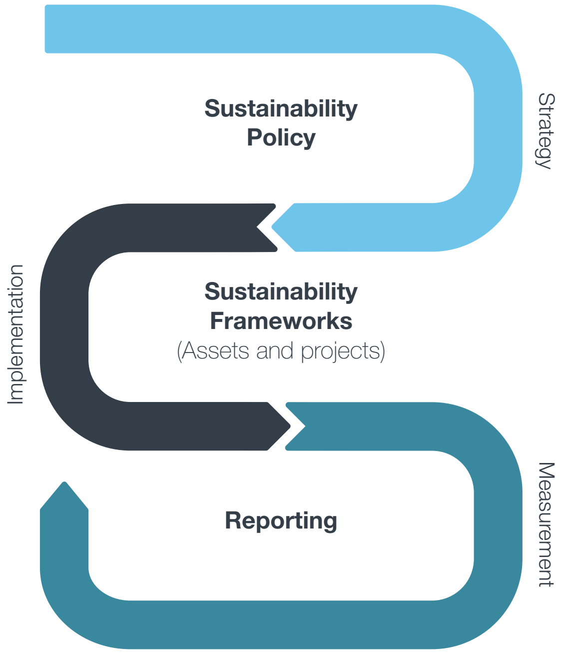
OUR APPROACH

Sustainability is central to the way we do business; it underpins our business model, creates value for our shareholders and ensures we operate in a responsible way.

We strive to provide spaces that encapsulate sustainability by working with our suppliers and tenants to help us deliver a responsible yet innovative approach.

Our approach to sustainability underpins our business operations and helps us optimise our returns to shareholders. It is characterised and encapsulated in our sustainability policy and strategy, which sets out what is important to our business in terms of sustainability and in turn allows us to prioritise performance targets to measure our success. This provides the basis for our sustainability frameworks for projects and assets, which set out the means to enact the policy in our day-to-day development and asset management activities. Having these frameworks in place allows us to focus our efforts on priority areas and be more transparent and accurate in our reporting.

Our sustainability delivery model



Governance and reporting

The Sustainability Committee meets every quarter to review progress against our sustainability targets and discuss performance across the business. Paul Williams is Chairman of the Committee and a member of the Board of Directors, as a result he reports directly and regularly to the Board on progress.

As well as this summary, we publish a more comprehensive Sustainability Report with full details of our annual performance and data. We also frequently update our website www.derwentlondon.com/sustainability on various sustainability initiatives happening throughout the year.

Coupled with our public reporting we participate in a number of external indices and initiatives in order to benchmark ourselves. For example, we continue to be listed in the FTSE4Good Index; we participate in the Carbon Disclosure Project and take part in the Global Real Estate Sustainability Benchmark.

Derwent London Board

Sustainability Committee

Paul Williams
Director responsible for sustainability
Chairman

John Davies
Sustainability manager

Tim Kite
Company secretary

Louise Rich
Head of investor relations

Looking ahead

Whilst we have made good progress with our sustainability approach to date, we believe we can do more. We will be undertaking a comprehensive review of our policy and frameworks during 2013 to help us understand how we can improve further.

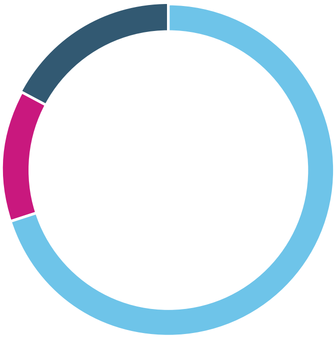
OUR PERFORMANCE

This year we have made good progress in developing our sustainability agenda, meeting most of our performance targets and demonstrating our ongoing commitment to operating our business as responsibly as possible.

The targets set for 2012 have been our most challenging to date. They were designed to build on our past successes but also focus our business on what matters most from a sustainability perspective. Performance was measured in a similar way to that in 2011 against 30 targets, set across a number of themes; management, environment, employees, communities, customers and suppliers. We believe we have performed well this year, and a summary of our performance is set out below. 83% of our targets were either achieved or partially achieved.

References made to our managed portfolio are to the 51 multi-let properties in our portfolio. We do not report on single-let properties or buildings that we do not manage.

Performance %



● Achieved	**70**
● Partially achieved	**13**
● Not achieved	**17**

2012 highlights

Resource efficiency

55%
recycling rate of managed waste across our like-for-like portfolio

4.4%
reduction in water usage across our whole managed portfolio

Customers

42%
of tenants thought we were doing well in improving the performance of our buildings

Suppliers

24
days average invoice payment period

Communities

£250,000
Fitzrovia community investment fund created

£2,950,695
community contributions via planning

Employees

c£50,000
invested in formal staff training

8.6%
employee turnover rate compared with national average of 12.7%

OUR CARBON FOOTPRINT

For more than five years, we have been measuring and reporting carbon emissions. This is the first year we have specifically reported our carbon footprint in the annual report and accounts as we seek to add greater granularity and transparency to our reporting.

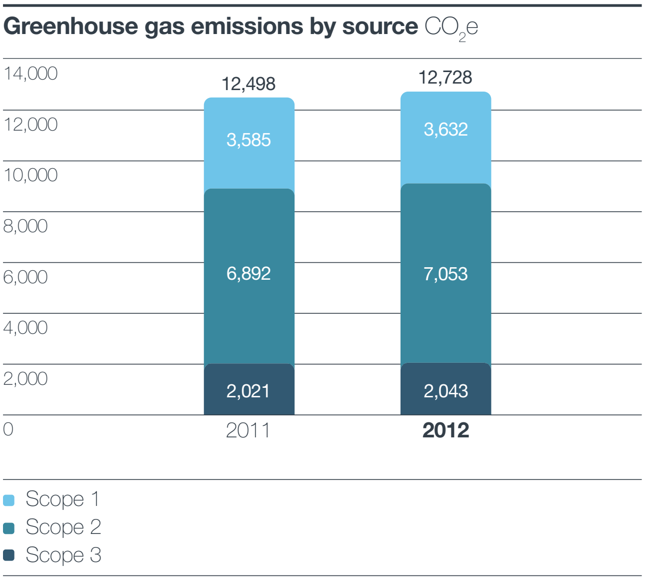
This year we are reporting our Scope 1 (direct, controlled[1]), Scope 2 (indirect, controlled) and Scope 3 (other indirect) emissions in accordance with international best practice guidance, namely The Greenhouse Gas (GHG) Protocol. This data is also included in our 2012 Sustainability Report. Our Carbon Reduction Commitment (CRC) data is collected in parallel and reported separately in the section below.

Whilst we have made good progress in many areas of our business, our whole managed portfolio carbon footprint for this year has increased marginally by 1.8%. This is due to a general increase in occupancy levels across the portfolio, as well as the Angel Building now being fully occupied and operational over the whole year. However, with our new space designs such as the White Collar Factory, we are aiming to drive down this footprint as well as increase our interaction with our tenants to influence operational behaviour in our buildings.

Carbon Reduction Commitment

In line with our obligations under the Government's Carbon Reduction Commitment Energy Efficiency Scheme (CRC), we submitted our first report in 2011, which totalled 24,620 tonnes of CO_2.[2] The CRC is a mandatory scheme for all organisations that have half-hourly metered electricity consumption greater than 6,000 MWh per year. As a result each year we are required to purchase carbon allowances based on our total annual consumption. The price of these allowances is currently £12 per tonne of CO_2.

The first year of operation of the scheme (2010-11) was only a reporting year for all participants; we were not subject to any financial liability. In the 2011-12 reporting year, our reported carbon totalled 24,048 tonnes of CO_2 – a reduction of 2.3% compared with the previous period. This resulted in us having to purchase allowances to the value of £288,576.


Greenhouse gas emissions by source CO_2e

Looking ahead

With the introduction of the Climate Change Act and the accompanying Greenhouse Gas Emissions (Directors' Reports) Regulations, carbon reporting will become mandatory during 2013 for companies that are listed on the London Stock Exchange. We are adopting the regulations early by reporting our carbon footprint within this report.

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[1] Does not include our refrigerant losses

[2] The CRC only requires companies to report in carbon dioxide (CO_2) and not in terms of GHG emissions – expressed as carbon dioxide equivalent (CO_2e). Moreover, the scope of the CRC requires us to report additional carbon related to energy to buildings to which we supply energy, but over which we do not have operational control.

RESOURCE EFFICIENCY

For many years, we have taken a holistic view with respect to energy, water and waste, and have seen them as key resources that interrelate. By focusing on their efficient use and management we aim to not only reduce our costs but also our carbon burden. As part of this focus, we also encourage our tenants to be as resource efficient as possible in order to optimise the operational efficiency of our portfolio.

Energy

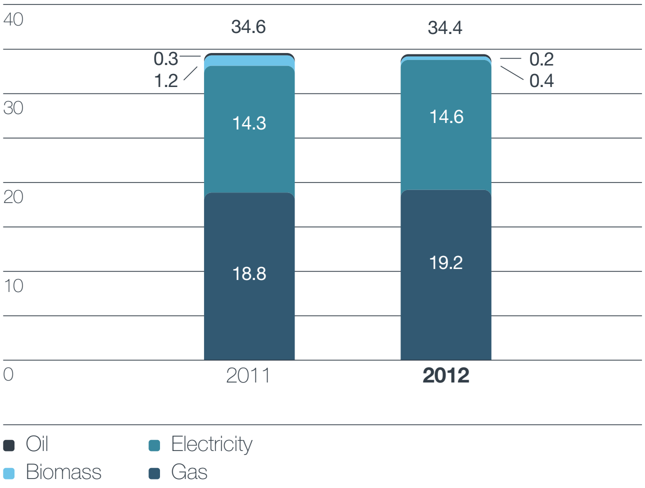
In 2012 for the first time we set ourselves an energy/carbon reduction target based on portfolio intensity. We have learned a lot from this, although we have found it difficult to meet. Energy intensity marginally increased by 1.3% in our like-for-like portfolio. As with our carbon footprint, this increase reflects increased occupancy profiles in many of our buildings and some assets becoming fully occupied and operational over a whole year.

However, we have seen a slight reduction of 0.4% in our overall energy usage across our managed portfolio.

As well as operational carbon, we also continue to try to understand the impact of embodied carbon from our portfolio. Our policy of refurbishing or regenerating rather than building from scratch wherever feasible, as well as not over-specifying, tends naturally to lead to a lower embodied carbon burden from our developments. We have undertaken a number of assessments on some of our latest schemes, which show we can typically achieve a 70% reduction in embodied carbon when compared to a new build solution. We intend to develop further our understanding of our overall impacts and identify opportunities to reduce and/or mitigate where feasible.

Looking ahead
During 2013, we will be undertaking a full review of our management approach and implementing certain measures, which will allow us to understand the impact of greater occupancy levels and identify where we can improve our performance.

Energy usage across the managed portfolio mkWh



0.4%

reduction in energy usage across our managed portfolio

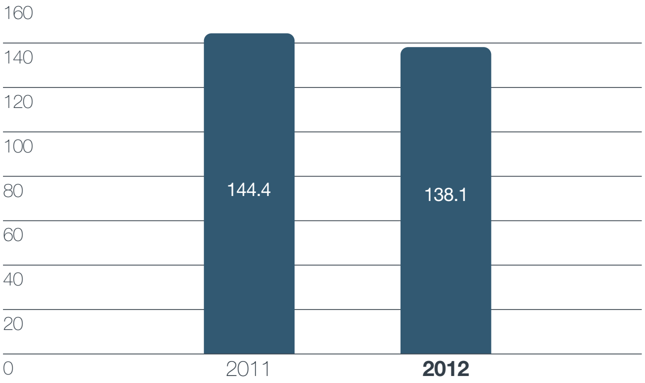
Water

We have always strived to manage our water supplies and usage levels responsibly. This is now increasingly important with water supplies coming under increased stress in London and the South East of England. Wherever possible we look to displace mains water usage with harvested and recycled supplies to reduce our mains water consumption.

During 2012, building on the work carried out during 2011, we undertook a programme of works to drive down water consumption in key buildings across our portfolio. This has seen us realise a 4.4% reduction across our managed portfolio.

This reduction has been achieved by using a range of measures in our managed properties. For example, we have installed waterless urinals at the Angel Building and have reduced toilet flush intensity to six litres at the Johnson Building EC1. Moreover, the rainwater harvesting measures installed at the Angel Building are helping to displace unnecessary mains water use.

Water usage across the managed portfolio '000m^2



4.4%

reduction in water usage across our whole managed portfolio

Waste

We believe that it is important not to create waste in the first instance. We look for opportunities to eliminate, reduce or re-use wherever possible. This not only has the immediate benefit of reducing our environmental impact but also reduces our financial exposure to existing and future landfill tax charges.

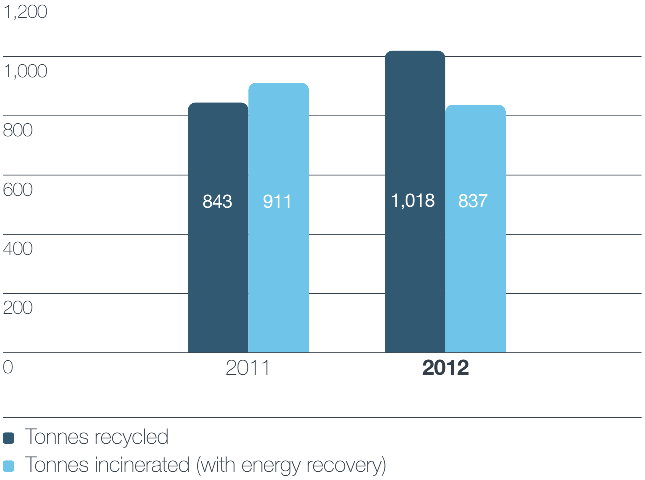
During 2012, we have continued to send no waste to landfill from our managed properties, maintaining our performance from 2011. Whilst our occupancy profiles have grown, we have again effectively engaged our waste management contractors and tenants to deliver this target.

Although our waste tonnages have increased as occupancy rates have risen, we have been successful in increasing our recycling rates in both our managed and like-for-like portfolios and reducing the amount sent for incineration. In 2011, we recycled 47% increasing this year to 54% across our whole portfolio; likewise, we recycled 48% in 2011 rising to 55% this year across our like-for-like portfolio. Across both portfolios we have decreased our use of incineration by 13%.

In terms of construction waste, we sought to divert 95% of construction and demolition waste from landfill for projects with a floor area of 5,000m^2 or more. This was a new target for 2012 increasing from 90% in 2011.

We found this new target a challenge, achieving an average diversion rate of 92%. Much of our construction waste in 2012 was strip out and fit out waste, elements of which had no other viable disposal route other than to be sent to landfill. Moving forward we will reassess this target to ensure it is sufficiently robust yet practicable.

Managed waste across the like-for-like portfolio Tonnes



Zero

operational waste from managed properties sent to landfill

55%

recycling rate of operational waste across our like-for-like portfolio

ENGAGING WITH THE COMMUNITY AND EMPLOYEES

The continued strong performance of our business would not be possible without the commitment of our employees and a positive engagement with the communities in which we operate.

Community

We are committed to supporting the communities in which we operate. We seek to engage positively with community stakeholders and work in partnership with them in order to enhance the areas around the properties. We look to support initiatives and charities where there is either a local perspective or where Derwent London has a particular interest.

A good example of this is our ongoing work in Fitzrovia. During 2012 we undertook an extensive piece of community research called "Understanding Fitzrovia" which was an evidence-based research programme working with the London Borough of Camden and designed to help us understand in more detail the issues of most importance to local residents. The outcomes from this research have enabled us to develop a robust community investment strategy, which will be implemented in 2013. We plan to invest a total of £250,000 in the strategy over the next five years.

We also support a number of charitable organisations and good causes, through both financial donation and the investment of our time. One charity we have worked with for many years is the Teenage Cancer Trust and this year we arranged a fund raising lunch for the Trust, which raised £205,000.

Our community contributions via planning have also increased significantly this year from £20,069 in 2011 to £2,950,695 – a result of our increased development activity.

Looking ahead
In 2013 we will be taking part in the London Evening Standard's "Ladder for London" campaign, by providing a long-term apprenticeship opportunity for a trainee building manager at the Angel Building.

Donations to charities and good causes

£144k

2011: £104k

Invested in community initiatives

£327k

2011: £262k

Community contributions via planning

£2,951k

2011: £20k

Employees

The continued strong performance of our business would not be possible without our employees. We provide a stimulating, challenging and rewarding environment in which our people can work and be supported in developing their career paths and skill sets. We employ a small, focused in-house team of just over 100 people who are experts in their chosen fields. This allows us to create an environment which engenders a strong sense of teamwork, pride and passion in all areas of the business. As a result we have a low staff turnover rate of 8.6% – the national average being 12.7%.

We recognise and appreciate that our success stems from the commitment, hard work and loyalty of our employees. This has been externally recognised in Management Today's 2012 Most Admired Companies awards. We were ranked 9th for "Retaining Top Talent" as well as being ranked 7th overall looking at all categories assessed by the awards.

In addition, we also provide a working environment which proactively encourages equality and opportunities for all. As such there is a well-balanced gender ratio at Derwent London.

c£50,000

invested in formal staff training

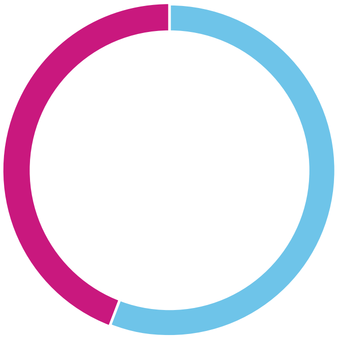
Enhanced training for all employees through knowledge share workshops from four Directors and a development team project presentation programme

Overhaul and improvement of our recruitment process

Piloted our first employee survey

No near misses or RIDDORs involving Derwent London employees

Gender



● Male	**56**
● Female	**44**

Awards and recognition

Management Today – Britain's Most Admired Companies 2012 – seventh overall. First in the property category for the third year in succession.

Once again for 2012 we have received recognition for the quality of our sustainability reporting.

EPRA Sustainability Awards – Silver Award for our 2011 Sustainability Report.

Carbon Disclosure Project – Disclosure Rating score of 78 – up two points from 2011.

GRESB 2012 – Green Star status and sector leader in the listed European office sector.

New Energy & Cleantech Awards – Developer of the year.

ENGAGING WITH THE COMMUNITY AND EMPLOYEES
CONTINUED

Customers

We are a customer-focused business and are always striving to deliver best-in-class customer service in order to maintain high standards of customer care. As well as an ongoing series of tenant feedback exercises to understand how we can improve our service, we are also interested in understanding our tenants' views on sustainability – its impact on them and the buildings they occupy, and how they think we could improve our approach. As a result, during 2012 we surveyed a number of our tenants with a specifically designed sustainability survey, which sought to understand this important issue amongst our tenant community.

The results from the survey, which received a high response rate, have given us a clear indication on the relative importance of sustainability to our tenants, and shows how well we are doing in terms of our sustainability efforts. Some of the feedback included:

- 42% of tenants said that our sustainability activities make their experience as a tenant better than average whilst 53% ranked their experience as average.
- 42% of our tenants thought it was very important to them that we managed our sustainability agenda properly and 58% thought it was important or quite important.
- 47% of our tenants thought we were doing well in improving the sustainability performance of the buildings they occupy whilst nearly 30% thought our performance was average. A further 23% thought we could do more.

We are currently assessing the results of the survey to help us identify areas of further improvement.

Suppliers

Working proactively with all levels of our supply chain enables us to generate value, develop great spaces to a high standard, protect our reputation and deliver our customers' expectations. We have undertaken studies to understand where the risks in our supply chains might lie and are working to address these in a collaborative fashion. Last year we undertook a project to understand the sustainability impacts of our operational supply chains and identify where our suppliers could support us with achieving our sustainability goals. This generated a series of recommendations which we have taken forward with those identified suppliers.

It is incumbent on us as a responsible company to ensure we uphold our financial commitments to all our suppliers – this means honouring our invoice payment period of 28 days. In 2012 we continued to better our payment period of 28 days, with our average this year being 24 days.

Looking ahead
To complement and add to the supply chain work undertaken in the last year we will be undertaking a comprehensive sustainability risk analysis using a "flexible framework". This will allow us to assess exactly what issues and risks there may be within our supply chains and how we might seek to address those in collaboration with our suppliers.

24 days
average invoice payment period

47%
of tenants thought we were doing well in improving the performance of our buildings

OUR 2013 TARGETS

Our 2012 performance targets were our most challenging to date and have helped us raise our performance and develop new processes and approaches, which we will look to embed in our business in the longer term. For 2013, we are looking to build on our past successes and set ourselves further challenges. We set out below our targets for 2013.

Aspect	Target
Management	■ Refresh our corporate Sustainability Strategy, Implementation Plan and Sustainability Frameworks ■ Investigate and trial where appropriate WRAP's new Resource Management Planning approach ■ Develop an appropriate sub-metering and reporting strategy setting a management plan to ensure all managed buildings have readable utilities meters by 2015 ■ Develop a risk management plan to ensure no space available to let in 2018 has an EPC rating of F or G ■ Achieve a minimum of BREEAM Very Good for all major refurbishments >5,000m^2 ■ Achieve a minimum of BREEAM Excellent for all new build projects ■ Undertake a series of presentations to new tenants in 2013 to raise awareness of the Ska assessment process in order to encourage its uptake ■ Introduce a new BMS and metering system audit and sign off procedure in all new build development briefs
Resource efficiency (energy and carbon)	■ Investigate and develop an appropriate and consistent measurement method for embodied carbon in our portfolio ■ Carry out a post occupancy energy performance evaluation on all new projects >5,000m^2 once occupied for more than 12 months
Resource efficiency (water)	■ Maintain portfolio mains water consumption below 0.50 m^3/m^2 ■ Report percentage of water usage from rainwater harvesting ■ All projects over 5,000m^2 to be designed to include water saving systems ■ All new projects to be designed to achieve a maximum mains water usage of 0.50m^3/m^2 or better
Resource efficiency (waste)	■ Send zero waste to landfill from properties for which Derwent London has control over waste management ■ Achieve a 60% recycling rate for managed waste in all properties for which Derwent London has control over waste management ■ Divert 90% of construction and demolition waste from landfill ■ For projects >5,000m^2 ensure that a minimum of 15% of the total value of materials used contain recycled and/or re-used content, using the WRAP Net Waste Tool as the measure
Travel	■ Review the outcomes from the travel surveys undertaken during 2012 and implement the recommendations where appropriate
Biodiversity	■ Implement the recommendations from the biodiversity action plan on six buildings in the managed portfolio
Suppliers	■ Develop and implement a set of formal sustainability requirements for our construction contracts ■ Develop and implement a sustainability brief for all our suppliers at our managed properties ■ Investigate our supplier staff wage structures and benchmark them against industry best practice
Community	■ Investigate and develop an appropriate and consistent approach to measure our socio-economic impact
Customers	■ Implement a formal, regular programme of customer service training for property and building management staff drawing on feedback from 2011 and 2012 pilots ■ Undertake customer feedback assessments on occupation in all new build and refurbishments >5,000m^2 ■ Review the outcomes from the customer sustainability survey and implement the recommendations made ■ Undertake a customer satisfaction survey for 2013 to assess the improvement benchmarked against 2011 results
Employees	■ Launch employee volunteering programme working with existing charity partners and communities in which we operate ■ Deliver training to all Development/Asset/Building Management staff on our sustainability approach, commitments and requirements ■ Develop and host two further Director technical presentations as part of the ongoing knowledge-share programme

Spread overleaf:
40 Chancery Lane WC2


McGEE
McGEE
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CORPORATE GOVERNANCE

BOARD OF DIRECTORS

1. Robert A. Rayne, 64

Non-executive Chairman

The Hon R.A. Rayne joined the Board in February 2007. He has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc, and is a non-executive Director of LMS Capital plc. He is also a non-executive Director of Weatherford International Inc., and was Chief Executive Officer of London Merchant Securities plc.

2. John D. Burns, 68

Chief Executive Officer

John has been a Director of the Company since 1984 and has overall responsibility for Group strategy, business development and day-to-day operations. He is a member of the strategic board of the New West End Company Limited. He is also a member of the Risk Committee.

3. Damian M.A. Wisniewski, 51

Finance Director

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

4. Simon P. Silver, 62

Executive Director

Simon has overall responsibility for the development and regeneration programme. He became a Director in 1986 and is an honorary fellow of the Royal Institute of British Architects.

5. Paul M. Williams, 52

Executive Director

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

6. Nigel Q. George, 49

Executive Director

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

7. David G. Silverman, 43

Executive Director

David joined the Board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals. He is the immediate past Chairman of Westminster Property Association and sits on its General Council.

8. John C. Ivey, 71

Non-executive Deputy Chairman

A chartered accountant, John was a non-executive Director of RWS Holdings plc until January 2010 and was formerly Chief Executive of Berendsen plc. He has served on the Board since 1984 and is a member of the Nominations Committee.

9. Stuart A. Corbyn, 68

Senior Independent Director

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

10. Robert A. Farnes, 67

Non-executive Director

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

11. June de Moller, 65

Non-executive Director

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

12. Simon Fraser, 49

Non-executive Director

Simon joined the Board in September 2012 and is a member of the Audit and Remuneration Committees. From 1997 to his retirement at the end of 2011, he worked at Bank of America Merrill Lynch where he had been managing director and co-head of corporate broking since 2004.

13. Stephen G. Young, 57

Non-executive Director

Stephen is a chartered management accountant. He joined the Board in August 2010. He is Group Finance Director at Meggitt plc. Previously, he held the position of Group Finance Director at Thistle Hotels plc and the Automobile Association. He chairs the Audit and Risk Committees whilst serving on the Remuneration and Nominations Committees.

14. Timothy J. Kite

Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' responsibilities

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

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS) 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:

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

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

On behalf of the Board

John D. Burns
Chief Executive Officer

Damian M.A. Wisniewski
Finance Director
28 February 2013

DIRECTORS' REPORT

Corporate governance

The Directors present their report and the financial statements for the year ended 31 December 2012.

Chairman's letter on corporate governance

On behalf of the Board I am pleased to present the Group's Corporate Governance report for 2012.

The rules and regulations that define Corporate Governance continue to expand and best practice continues to evolve. Consequently, Governance in its broadest sense demands more time and resources. However, at Derwent London we see adhering to these requirements as not only an exercise in compliance but also essential to the running of a successful and sustainable business.

The Company is subject to the provisions of the UK Corporate Governance Code (the Code) which was introduced by the Financial Reporting Council (FRC) in 2010. During 2012 a number of revisions were made which we will be required to comply with for our year ending December 2013. For 2012, the Board believes that the Company has complied with the main and supporting principles of the Code except for provision B.1.1 which addresses the independence of non-executive Directors. This matter is discussed more fully in the following section. In addition we have complied with a number of the new requirements.

Developments in the corporate governance framework during the year mean that the Group's Board Committees have had to consider the implications of a number of new issues, some of which I comment on below:

Diversity

In overseeing the Board refreshment process, the Nominations Committee was conscious of the increased focus on diversity in the boardroom. As a Board we acknowledge the importance of all aspects of diversity including gender, ethnic origin, business skills and experience, not only because it is right to do so but also because it is good for business. However, to be successfully implemented, change cannot be forced but can only be made gradually to reflect the natural pace of Board succession and the desired rate of refreshment, without being unduly influenced by an aspiration to affect the diversity of the Board.

To ensure that a sufficiently diverse list of potential candidates is considered when a new non-executive Director is being sought, we use external recruitment consultants who subscribe to the "Voluntary Code of Conduct for Executive Search Firms" and request that female candidates of equal merit are included on the list of candidates.

Risk

The introduction of the Group's Risk Committee at the end of 2011 appears to have been well timed as the nature of risks to the business and the management thereof has become subject to increased scrutiny.

Social media is being used more and more in the business environment and the high velocity with which news, both good and bad, is propagated in this medium could pose a particular risk to the Group's reputation. To address this we have put in place measures to monitor the content of the various forums and established an agreed procedure which would be implemented in a case of adverse or false comments.

On a separate front, potential legislation currently being consulted upon may, if enacted, prevent private investors from acquiring shares in REITs with a consequent possible effect on the Group's share price. Along with others, we have lobbied on this proposal through the British Property Federation and wait to see the result of the industry's efforts.

Further details of the work of the Risk Committee are given on pages 102 and 103 and the Group's risk management processes are detailed on pages 30 to 33.

Remuneration

There has been much focus on executive remuneration over the last few years and 2012 saw the publication of wide reaching proposals on the subject by the Department for Business, Innovation and Skills (BIS). We agree with many of the proposals, in particular the requirement to publish a single figure for Directors' remuneration which will allow for more meaningful comparisons to be made. We have always published a single figure in our report of the Remuneration Committee albeit calculated on a different basis from that currently proposed by BIS. We have continued to use our method this year as the BIS basis has not yet been finalised.

Corporate Social Responsibility (CSR) continues to increase its prominence on the governance agenda and for the first time we have sought third party assurance of our figures. This will establish a firm base year for our reporting and allow us to monitor our performance and progress in this area more accurately in the future.

Once again, I would like to stress the importance of the Annual General Meeting (AGM) as an opportunity for shareholders to meet the management team and encourage you to attend on 17 May 2013.

Robert A. Rayne
Chairman
28 February 2013

Business review

A review of the development of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects is included in the Chairman's statement and the strategy, performance and sustainability sections of the report and accounts. 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 14 to 73. These sections should be read in conjunction with this report and are incorporated into the Directors' report by reference. The disclosures in respect of the use of financial instruments are given in notes 27 and 28 of the financial statements.

The Board and Board Committees

Following the retirement of Simon Neathercoat at the end of the year the Board consisted of:

A non-executive Chairman:	Robert Rayne
Six non-executive Directors:	John Ivey Stuart Corbyn Stephen Young June de Moller Robert Farnes Simon Fraser
Six executive Directors:	John Burns Simon Silver Damian Wisniewski Nigel George Paul Williams David Silverman

Simon Fraser joined the board on 1 September 2012.

As noted above, John Ivey and Robert Farnes do not qualify to be deemed independent using the criteria set out in provision B.1.1. of the Code. The Board has therefore specifically considered their independence.

At the year end both had served on the board for more than nine years and are therefore not deemed independent. The Board does not believe that length of service is necessarily an accurate indication of the degree of independence of a Director and therefore has reviewed the manner in which both Directors carried out their duties during the year. In the Board's opinion, they both continue to demonstrate commitment to their roles and to exercise their expertise in an effective and independent manner.

Robert Farnes' period of service as a non-executive Director reached nine years on 31 March 2012 and in accordance with best practice, on 1 April 2012 he handed over the chairmanship of the Remuneration Committee to June de Moller and was replaced by Stuart Corbyn as the Group's Senior Independent Director.

Neither John Ivey nor Robert Farnes has any association with management that might compromise their independence and both are standing for re-election at the Company's AGM on 17 May 2013.

During the year the process of refreshment which was introduced in 2010 was continued. This was instigated to address the independence issues that had been identified at that time, through an orderly process of change. In 2011, the independent executive search agency, Spencer Stuart, was appointed to assist with the recruitment of two new independent non-executive Directors over a period of 18 months. Simon Fraser, who was appointed to the Board on 1 September 2012, is the first new director under this initiative, and this was followed by the retirement of Simon Neathercoat at the end of the year. It is anticipated that another non-executive Director will be appointed during 2013 and that John Ivey will retire shortly thereafter.

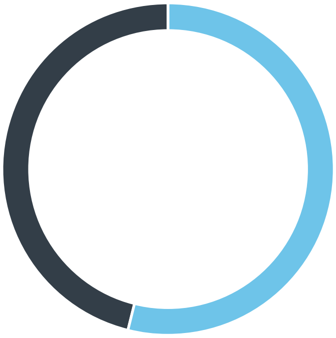
As part of the refreshment process, the Directors continue to assess the composition and diversity of the Board having particular regard to its gender diversity and the enhanced requirements in this area due to be introduced in the 2012 revision of the Code. One of these requirements is to publish an aspirational target for the number of women on the board. The Board currently includes one female (8%) and remains reluctant to publish such a target as it is convinced that future appointments should be based solely on the merit of the candidates. The gender mix throughout the company is illustrated in the diagrams opposite.

Taking all factors into account, the Directors continue to believe that the Board has an appropriate balance of skills, experience, knowledge and independence to satisfy the requirements of good corporate governance.

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

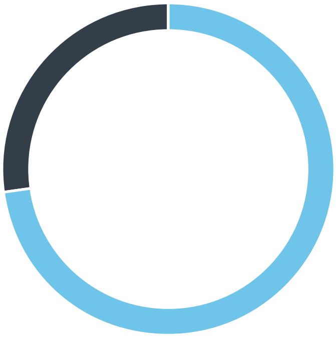
The Board is responsible for setting the company's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the full Board's approval is maintained and reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2013. Extra meetings will be arranged if necessary. During the year, the executive Board was expanded to create an executive committee. This committee consists of the executive Directors plus three of the Group's senior managers and met 12 times throughout the year. Both bodies are provided with comprehensive papers in a timely manner to ensure that the members are fully briefed on matters to be discussed at these meetings.

Gender diversity – Whole company %



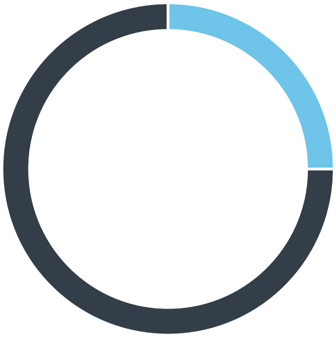
■ Male	**54**
■ Female	**46**

Gender diversity – Senior management (excluding Directors) %



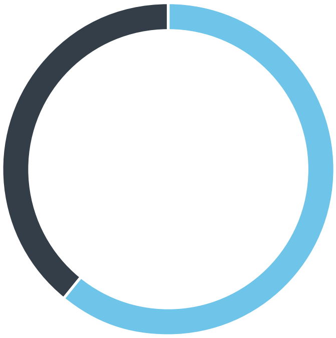
■ Male	**73**
■ Female	**27**

Gender diversity – Support staff %



■ Male	**25**
■ Female	**75**

Gender diversity – Professional staff %



■ Male	**61**
■ Female	**39**

The Board maintains a number of Board Committees. The terms of reference of each Committee are available on the Group's website. Set out below are details of the membership and duties of the four principal Committees that operated throughout 2012.

Remuneration Committee

At the start of the year the Committee comprised of June de Moller, Stuart Corbyn and Stephen Young under the chairmanship of Robert Farnes. June de Moller took over as Chairman on 1 April 2012 and Simon Fraser joined the Committee on 1 January 2013, slightly later than originally planned. He will become Chairman of the Committee after the Group's AGM in May 2013 and, in order to ensure a smooth transition, it has been decided that Robert Farnes will remain on the Committee until that date. The Committee is responsible for establishing the Company's remuneration policy and individual remuneration packages for the executive Directors. There were six meetings of the Committee in 2012 and the report of its activities is set out on pages 89 to 99.

Audit Committee

This Committee is chaired by Stephen Young and was served throughout the year by Stuart Corbyn, Robert Farnes and June de Moller. Simon Fraser joined the Committee on 1 September 2012 and Robert Farnes will step down following the Group's AGM in May 2013. The Committee is responsible for reviewing, and reporting to the Board on, the Group's financial reporting and for maintaining an appropriate relationship with the Company's auditor. The Committee met four times during 2012 and the report of the Audit Committee is on page 105.

Nominations Committee

The Committee consists of John Ivey, Robert Farnes, June de Moller, Simon Neathercoat and Stephen Young and is chaired by Stuart Corbyn. Its responsibilities include identifying external candidates for appointment as Directors and, subsequently, recommending their appointment to the Board. If requested, the Committee will make a recommendation concerning an appointment to the Board from within the Company. The Committee met three times during 2012. The report of the Nominations Committee is on page 101.

Risk Committee

The Risk Committee was established in November 2011. It is chaired by Stephen Young and was served throughout the year by June de Moller, John Burns and Damian Wisniewski. The Committee's main responsibility is to review the effectiveness of the Company's internal control and risk management systems. It met three times during the year and the Committee report is on page 103.

DIRECTORS' REPORT
CONTINUED

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

	Full Board	Executive Committee	Remuneration Committee	Audit Committee	Nominations Committee	Risk Committee
Number of meetings	6	12	6	4	3	3
Executive						
J.D. Burns	6	12	–	–	–	3
S.P. Silver	6	10	–	–	–	–
D.M.A. Wisniewski	6	12	–	–	–	3
P.M. Williams	6	12	–	–	–	–
N.Q. George	6	12	–	–	–	–
D.G. Silverman	6	11	–	–	–	–
Non-executive						
R.A. Rayne	6	–	–	–	–	–
J.C. Ivey	6	–	–	–	2	–
S.J. Neathercoat	6	–	–	–	3	–
R.A. Farnes	6	–	6	4	3	–
S.A. Corbyn	6	–	6	4	3	–
J. de Moller	6	–	6	4	3	3
S.G. Young	6	–	6	4	3	3
S. Fraser (from 1 September 2012)	2	–	–	1	–	–

Performance evaluation

With regard to the requirement of provision B.6.2 of the Code and having used an independent third party to facilitate the annual review of the effectiveness of the Board last year, the Board undertook an internal assessment in 2012.

The review was initiated by all Directors completing a questionnaire prepared by the Chairman, Senior Independent Director and Company Secretary which covered the processes and performance of the Board, its Committees and the Chairman. It was decided that the performance of individual Directors would be assessed by means of one-to-one meetings between the Chairman and the Directors.

The anonymous responses were summarised by the Company Secretary and reviewed by the Chairman, the Senior Independent Director or the Committee chairmen as appropriate. Any significant matters were discussed with the individual Directors by the Chairman.

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

The performance of the Chairman was assessed by the non-executive Directors under the leadership of the Senior Independent Director using the responses to that part of the questionnaire. As part of this review, we identified an opportunity to further enhance the breadth and depth of our communication with shareholders by increasing the number of meetings that the Chairman has with investors. This matter will be addressed in the first half of 2013.

Directors

Appointment and replacement of 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.

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

The articles provide that at every AGM of the Company any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. However, Provision B.7.1 of the Code requires that all Directors are subject to annual re-election and therefore at the next AGM all the Directors will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on pages 76 and 77.

The Company may by special resolution remove any Director before the expiration of his period of office. The office of a Director shall be vacated if:

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

If considered appropriate, new Directors are provided with external training that addresses their role and duties as a director of a quoted public company. Existing Directors monitor their own continued professional development and are encouraged to attend those courses that keep their market and regulatory knowledge current.

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

Directors' interests

The Directors of the Company during the year and their interests in the share capital of the Company, including deferred shares and 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.

Powers of the Directors

Subject to the Company's articles, the Companies Act 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.

There have been no changes in any of the Directors' interests between the year-end and 28 February 2013.

The Directors do not participate in the Group's Executive Share Option Scheme. Details of the options exercised by Directors are given in the report of the Remuneration Committee (pages 89 to 99). A conditional grant of 230,925 shares was made to Directors under the Performance Share Plan (PSP) whilst 173,925 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 173,925 shares of this award made to Directors lapsed.

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

Conflicts of interest

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

	Ordinary shares of 5p each		Options	
	31 Dec 12	31 Dec 11	**31 Dec 12**	31 Dec 11
R.A. Rayne[1]	**4,409,295**	4,409,295	**91,730**	157,345
J.C. Ivey	**79,072**	79,072	**–**	–
J.D. Burns	**760,031**	737,127	**199,543**	241,683
S.P. Silver	**364,939**	346,465	**171,120**	206,521
N.Q. George	**33,846**	20,348	**103,695**	125,122
P.M. Williams	**35,622**	35,168	**103,695**	125,122
D.G. Silverman	**8,879**	6,821	**89,705**	108,543
D.M.A. Wisniewski	**816**	–	**100,352**	67,221
S.J. Neathercoat (retired 31 December 2012)	**–**	8,000	**–**	–
R.A. Farnes	**6,838**	6,838	**–**	–
S.A. Corbyn	**1,000**	1,000	**–**	–
J. de Moller	**2,985**	2,985	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
S. Fraser (joined 1 September 2012)	**–**	–	**–**	–

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[1] Includes shares held by the Rayne Foundation of which he is a trustee

DIRECTORS' REPORT
CONTINUED

Communication with shareholders

The Company recognises the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive Directors, by giving presentations and organising visits to the Group's property assets. The Board receives regular reports of these meetings which include a summary of any significant issues raised by the shareholders. Communication with shareholders will be further enhanced by the increase in the number of meetings between the Chairman and investors discussed above. The annual report, which is available to all shareholders, reinforces this communication. During the year, the Group's website www.derwentlondon.com has been updated so as to provide a more functional source of information for shareholders and the presentations made to analysts at the time of the Group's interim and full year results are made available on the website. The AGM provides an opportunity for shareholders to question the Directors and, in particular, the chairman of each of the Board Committees. An alternative channel of communication to the Board is available through Stuart Corbyn, the Senior Independent Director.

Risk management and internal control

The principal risks and uncertainties facing the Group in 2013 together with the controls and mitigating factors are set out on pages 30 to 33. The systems that control the risks form the Group's system of internal control. The key elements of the Group's internal control framework are:

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

Report and accounts

The Board has considered the Group's report and accounts and, taking into account the recommendation of the Audit Committee, is satisfied that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

Share capital

As at 28 February 2013, 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

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

Voting

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

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

Restrictions on voting

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

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

Restrictions on transfer of securities in the Company

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

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

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

Variation of rights

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

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

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

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

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

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

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

The Directors were granted authority at the last AGM held in 2012 to allot relevant securities up to a nominal amount of £1,694,567. 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 £1,699,522 and (ii) up to a nominal amount of £3,399,044 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the "section 551 authority"), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £254,928. A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 10,197,134 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Treasury shares

At 31 December 2012 the Company held 42,895 shares as treasury shares in order to deliver the deferred bonus shares to the Directors when the deferral period expires. Movements on the holding of treasury shares are detailed in the table below.

Treasury shares	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Acquired on 25 March 2011	25,322	0.025	15.55	393,757
Holding at 31 December 2011	25,322	0.025		393,757
Acquired on 29 March 2012	30,236	0.029	17.38	525,502
Maximum holding during 2012	55,558	0.054		919,259
Disposed on 2 April 2012	(12,663)	(0.012)	17.31	(219,196)
Holding at 31 December 2012	**42,895**	**0.042**		**700,063**

DIRECTORS' REPORT
CONTINUED

Substantial shareholders

In addition to those of the Directors disclosed on page 83, the Company has been notified of the following interests in the issued ordinary share capital as at 28 February 2013.

	Number of shares	Percentage of issued share capital
Cohen & Steers Capital Management Inc	5,231,757	5.13
Ameriprise Financial Inc	5,132,584	5.03
BlackRock Investment Management (UK) Ltd	5,035,211	4.94
Standard Life Investments	4,284,390	4.20
Third Avenue Management LLC	3,944,764	3.87
Withers Trust Corporation Ltd	3,942,641	3.86
Lady Jane Rayne[1]	3,593,838	3.52

[1] Includes shares held by the Rayne Foundation of which she is a trustee

Significant agreements

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

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

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

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

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

Amendment of articles of association

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

Creditor payment policy

The Group's policy is to agree terms of business with suppliers prior to the supply of goods or services. In the absence of any dispute, invoices are paid in accordance with these terms. For the year ended 31 December 2012, the average payment period was 24 days (2011: 24 days).

Charitable donations

The Group made charitable donations of £0.1m during the year (2011: £0.1m).

Fixed assets

The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2012, resulting in a surplus of £183.3m, before deducting the lease incentive adjustment of £8.0m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £2,807.0m. Further details are given in note 18 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 37 of the financial statements.

Going concern

Under Provision C.1.3 of the UK Corporate Governance Code, the Board needs to report that the business is a going concern. In considering this requirement, the Directors have taken into account the following:

i) The Group's latest rolling forecast for the next two years in particular the cash flows, borrowings and undrawn facilities. Sensitivity analysis is included within these forecasts
ii) The headroom under the Group's financial covenants
iii) The risks included on the Group's Risk Register that could impact on the Group's liquidity and solvency over the next 12 months.
iv) The risks on the Group's Risk Register that could be a threat to the Group's business model and capital adequacy.

The Group's risk and risk management processes are set out on pages 30 to 33.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

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

Auditor

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

Annual General Meeting

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

Resolution 19 is an ordinary resolution which will renew the authority of the Directors under Section 551 of the Companies Act 2006 to allot shares. Paragraph A of the resolution gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £1,699,253 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 £3,398,506, as reduced by the nominal amount of any shares issued under paragraph A of the resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

The Directors have no present intention of issuing shares except on the exercise of options under the Company's share option scheme, on the vesting of shares under the Company's performance share plan or in connection with the scrip dividend scheme. The authority will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2014.

Resolution 20 is a special resolution, proposed annually, and will renew the Directors' authority under Sections 570 and 573 of the Companies Act 2006. The resolution empowers the Directors to allot or, now that the Company may hold shares as treasury shares (as further described below), sell shares for cash in connection with pre-emptive offers and the scrip dividend scheme (where the scrip election is made after the declaration (but before payment) of a final dividend) 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 £255,040 which is equivalent to approximately 5% of the issued share capital as at the latest practicable date prior to the publication of this document.

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

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

The authority will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2014.

Resolution 21 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 authority will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2014.

The Companies Act 2006 permits the Company to hold any such repurchased shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them (as had previously been required under the relevant legislation). Accordingly, if the Company purchases any of its shares pursuant to resolution 21, the Company may cancel those shares or hold them in treasury. Such a decision will be made by the Directors at the time of purchase on the basis of the Company's and shareholders' best interests. As at the date of the notice of meeting, the Company held 61,211 shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 28 February 2013 was 1,098,880 which represented 1.08% 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 28 February 2013 would represent 1.33% of the issued share capital (excluding treasury shares).

Resolution 22 is required to reflect the implementation of the Shareholder Rights Directive which, in the absence of a special resolution to the contrary, increased the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. The shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and it is thought to be to the advantage of the shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

By order of the Board.

Timothy J. Kite ACA
Company Secretary
28 February 2013

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

I am pleased to present the Remuneration Committee's report on Director's remuneration for 2012.

As you may be aware, the Government has tabled proposals to reform the way Directors' remuneration is voted upon and reported. In particular, the Department for Business, Innovation and Skills (BIS) has produced two consultation papers, the results of which, amongst other things, will have an impact on the content and presentation of information in the report of the Remuneration Committee.

The new legislative requirements will not come into effect until October 2013 but, although not mandatory for this report, the Committee has decided to adopt some of these changes early. Consistent with the proposals, the report has been split into two sections: a Policy Section, which sets out the policy on the remuneration of the executive and non-executive Directors, and an Implementation Section, which discloses how the remuneration policy has been implemented for the year ending 31 December 2012. We will be seeking your support for both parts of the report by way of a single advisory vote at the forthcoming AGM on 17 May 2013.

Derwent London's continued objective is to deliver above average long-term returns to shareholders. In an industry where relatively few people manage a large and complicated business this can only be achieved by recruiting and retaining the right people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this.

Performance and reward

As discussed in the Business Review, the Group has delivered an increase in EPRA net assets per share of 10.9% and a total return of 12.7%. This strong performance in two of the Group's key KPIs resulted in a bonus entitlement of 85.41% once the Committee's discretionary element was added to the mathematical result.

The current economic climate has led to a debate about the "correct" amount of tax that should be paid as opposed to the legal amount. It is against this background that the Committee has decided to pay the Directors' bonuses in March, as in previous years, rather than delay the payment into April when tax rates will be lower. The Committee believes that this is in keeping with the governance standards expected of the Company by its investors.

Awards made under the PSP in 2009 were subject to two conditions, one half based on relative total shareholder return (TSR) performance against a group of other real estate companies and the other half based on net asset value growth compared to the return from properties in the IPD Central London Offices Total Return Index. The performance criteria were measured during the year and 50% of the total awards vested as a result of upper quartile positioning against the TSR peer group. Awards made under the PSP in 2010 are subject to the same performance conditions with the net asset value part of the award measured to 31 December 2012 and the TSR part measured to 1 April 2013. The Committee believes the annual bonus outturn and PSP vesting during the year fairly represents the Group performance over their respective performance periods.

Remuneration Policy for 2013

We are committed to ensuring that rewards for executives are closely aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets. These targets focus our management team on growing the Group's net asset value and increasing total return which in turn should deliver above market returns to shareholders.

The Committee is satisfied with the current structure of incentive arrangements – being an annual bonus plan (with a portion deferred in shares) and awards under a PSP. Moreover, we believe the current mix of targets under both incentive schemes is appropriate for the year ahead. That said, the Group's PSP expires in 2014 and we will be taking this opportunity to undertake a full review of the remuneration structure over the coming year. The Remuneration Committee encourages dialogue with the Company's leading shareholders and will consult with major shareholders ahead of any significant changes to the remuneration policy.

The Committee reviewed executive Directors' salary levels in December 2012 and agreed a basic increase of 3% for 2013 which took into account another excellent year of performance by the management team over all areas of the business in 2012, the competitive nature of the market for top performing executives in the real estate sector and the increases awarded throughout the rest of the Company. The Committee made a further award to one recently appointed Director in recognition of his increased experience and importance to the business.

The Committee is committed to ensuring that an appropriate balance is struck between the rewards made available to our executives and the risk profile of the Company and keeps the impact of remuneration on risk under review. As part of our considerations on risk, and in line with emerging best practice, the Committee introduced clawback provisions into the annual bonus plan and PSP during 2012. Following these changes the Committee remains satisfied that the Company's remuneration policy is fully aligned with the risk profile of the Company.

In times when companies' remuneration policies are subject to a high level of scrutiny, it is pleasing to note that at last year's AGM, the Directors' remuneration report was approved by 95% of the votes cast. This level of support from shareholders reinforces the Committee's view that the current remuneration structure accords with best practice and that the performance measures used in the variable pay elements of the structure are suitably aligned to the Company's overall performance.

June de Moller
Chairman of the Remuneration Committee
28 February 2013

REPORT OF THE REMUNERATION COMMITTEE

Policy report

This part of the report of the Remuneration Committee sets out the remuneration policy for the Company with effect from 1 January 2013. There are no changes to the policy compared to 2012, which the Committee considers still supports the Group's philosophy and is directly aligned with the business strategy.

The Committee, on behalf of the Board, is responsible for determining remuneration packages for the executive Directors and selected other senior executives. It also oversees the operation of the Group's bonus scheme and PSP and considers whether the schemes encourage the taking of excessive business risk.

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

- to ensure that the Company attracts, retains and motivates executives who have the skills and experience necessary to make a significant contribution to the delivery of the Group's objectives;
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to the level of remuneration in similar sized FTSE 350 companies. The Committee also takes account of the pay and conditions throughout the Company;
- to align, as far as possible, the interests of the senior executives with those of shareholders by providing a significant proportion of the Directors' total remuneration potential through a balanced mix of short and long-term performance related elements that are consistent with the Group's business strategy;
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice; and
- to ensure that the Group's remuneration structure does not encourage management to adopt an unacceptable risk profile for the business.

The areas covered in this policy report comprise:

- A table setting out the remuneration policy for executive Directors.
- Remuneration scenarios for executive Directors.
- Description of key remuneration related aspects of service contracts.
- Chairman's and non-executive Directors' fees.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

2013 executive Director policy table

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics	Changes in the year
Base salary	To help recruit, retain and motivate high-calibre executives. Reflects experience and importance to the business.	Reviewed annually, with effect from 1 January. Review reflects: - role, experience and performance; - economic conditions; - increases throughout the rest of the business; and - levels in companies with similar characteristics.	Annual increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above this level where appropriate. For promotions, role changes or where a Director gains experience of being in the role, salary increases may be higher than that of the workforce.	None	Directors' salaries increased by approximately 3% for 2013[1]. An additional increase of £12,000 was awarded to Mr Silverman which continues to move his salary towards the market benchmark.
Benefits	To provide a market competitive benefits package to help recruit and retain high-calibre executives. Medical benefits to help minimise disruption to business.	Directors are entitled to private medical insurance, car and fuel allowance and life assurance.	n/a	None	None
Pension	To help recruit and retain high calibre executives and reward continued contribution to the business.	The Company operates a defined contribution pension scheme. Where contributions would exceed either the lifetime or annual contribution limits payments in lieu are made.	Directors receive a contribution of 20% of salary.	None	None
Annual bonus	To incentivise the annual delivery of stretching financial targets and personal performance goals. Financial performance measures reflect KPIs of the business.	Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Measures and targets for the year ahead are reviewed by the Committee at the start of each financial year. Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% are deferred into shares of which 50% is released after 12 months and the balance after 24 months. These deferred shares are potentially forfeitable if the executive leaves prior to the share release date. Bonus payments are not pensionable. Clawback provisions apply in the event of misstatement or misconduct.	Maximum bonus potential, for the achievement of stretching performance conditions: John Burns and Simon Silver – 150% of salary. Other executive directors – 125% of salary.	37.5% of the maximum is based on Group's net asset value performance against IPD Central London Offices Total Return Index. 37.5% based on Group's total return against that of major real estate companies. 25% based on personal performance objectives. Total return is one of the KPIs used to measure the Group's overall success and its use in calculating a significant part of the Directors' bonus ensures an alignment between delivery of the Group's strategy and Directors' remuneration.	Clawback provisions were implemented during 2012.

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics	Changes in the year
Long-term incentive plan	To align the long-term interests of the Directors with those of the Group's shareholders. To incentivise value creation over the long-term. To aid retention.	The Committee makes a conditional award of nil cost options each year. Vesting is determined by the Group's achievements against stretching performance targets over the three subsequent years and continued employment. The Group's performance against the targets is independently verified on behalf of the Committee. The Committee considers the appropriateness of measures, their relative weightings and targets prior to each grant. Clawback provisions apply in the event of misstatement or misconduct. Where an employee retires during the three-year vesting period, their award will be adjusted in accordance with the scheme rules. 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.	Normal limit – 200% of salary. Limit in exceptional circumstances (e.g. recruitment) – 300% of salary. Working policy limits currently set at: John Burns and Simon Silver – 175% of salary. Other executive directors – 150% of salary.	50% determined by the Group's total shareholder return compared to a bespoke comparator group of real estate companies[2]. 25% vests at median performance with full vesting at upper quartile performance. No awards vest for below median performance. 50% determined by the Group's net asset value growth compared to the IPD Central London Offices Total Return Index. 25% vests at median performance with full vesting for exceeding the median by 5%. No awards vest for below median performance. Vesting is on a straight line basis between threshold and maximum. The Committee has discretion to reduce the extent of vesting in the event that it considers that performance against the relevant measure of performance (whether TSR or NAV growth) is inconsistent with underlying financial performance.	Clawback provisions were implemented during 2012.
Share ownership guidelines	To provide alignment between executives and shareholders.	Executive Directors are required to retain at least half of any shares vesting (net of tax) until the guideline is met.	John Burns – 200% of salary. Other Executive Directors – 100% of salary.	None	None
New appointments	Base salary levels will be set to reflect the experience of the individual, appropriate market data and internal relativities. If it is considered appropriate to appoint a new director on a below market salary through external recruitment or internal promotion, they may be the subject of a series of increases to a desired salary over an appropriate time frame, (e.g. two to three years), subject to performance in post. Normal policy will be for the new director to participate in the remuneration structure detailed above. Should it be the case that the Remuneration Committee considered it necessary to buy out incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, would be structured so that the terms of the buy-out mirrored the form and structure of the remuneration being replaced (e.g. vested share awards may be replaced with shares in Derwent London while recently granted long-term incentive awards may be replaced with an exceptional performance related LTIP award).				
Exit payment policy	Outside of the legacy arrangements of the Company's current executive Directors, the Company's policy for new appointments will be for service contracts to be terminable by the Company on one year's notice and to contain a mitigation clause providing for monthly phased payments throughout the notice period to include pro-rated salary, benefits and pension only, until alternative employment is found, at which point payments will cease or be reduced accordingly. Other than in the event of certain "good leaver" events (such as redundancy or retirement), no bonus will be payable unless the individual remains employed and is not under notice at the payment date. With regards to LTIP awards, standard "good leaver" definitions are included in the plan rules which also include the facility to reduce vested awards pro-rata for time served in the relevant period.				

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[1] The basic salaries effective from 1 January 2013 (2012 equivalents in brackets) are: John Burns £584,000 (£567,000), Simon Silver £501,000 (£486,000), Nigel George £372,000 (£361,000), Paul Williams £372,000 (£361,000), Damian Wisniewski £372,000 (£361,000), David Silverman £357,000 (£335,000).

[2] The TSR Comparator Group for 2013 awards remains unchanged from the prior year. The peer companies are:

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

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Service contracts

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

As mentioned in the policy table, the Company's policy for new appointments will be for service contracts to be terminable by the Company on one year's notice and to contain a mitigation clause providing for monthly phased payments throughout the notice period to include pro-rated salary, benefits and pension only, until alternative employment is found, at which point payments will cease or be reduced accordingly.

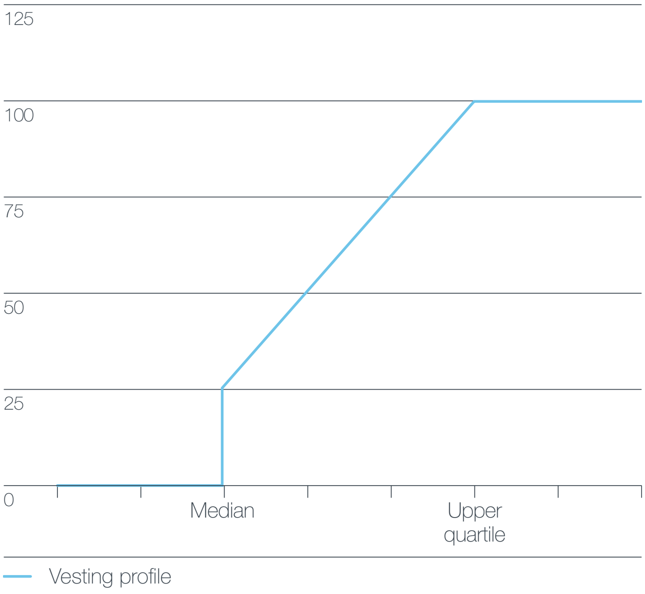
Chairman and non-executive Directors

The remuneration for the Chairman is set by the full Board. The remuneration for non-executive Directors, which consists of fees for their services in connection with Board and Board committee meetings and, where relevant, for additional services such as chairing a Board committee, is also set by the whole Board. As part of the recruitment process, the remuneration of the non-executive Directors was reviewed during 2012 to ensure that the fees were at an appropriate level. Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes, although the Chairman has a number of unexercised options granted under the historic LMS Executive Share Option Scheme, details of which are given in table 4 on page 97.

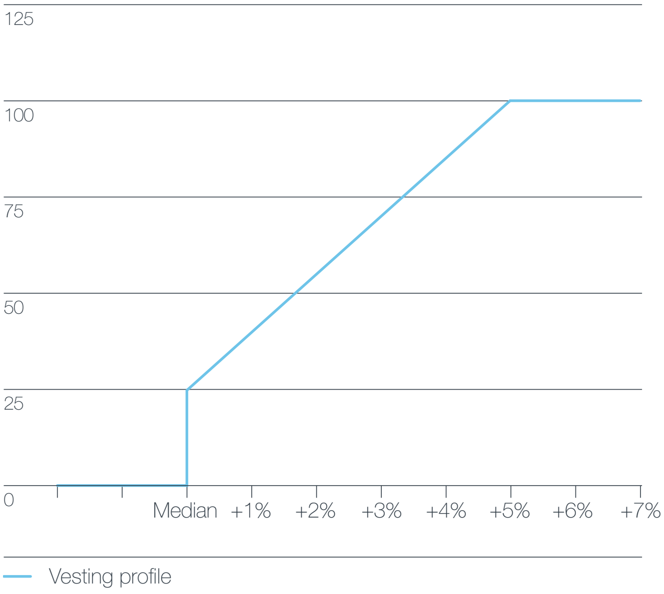
The non-executive Directors do not have service contracts and are appointed for three-year terms which expire as follows: Stuart Corbyn, 23 May 2015; June de Moller, 31 January 2016; Stephen Young, 9 July 2013; John Ivey, 12 December 2014 and Robert Farnes, 31 December 2014. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31 January 2016. 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.

The vesting profiles of the two elements of the LTIP are illustrated in the diagrams below:

Vesting profile of LTIP element measured against comparator group
vesting percentage



Vesting profile of LTIP element measured against IPD
vesting percentage



How the pay of employees is taken into account

In determining the remuneration policy for executive Directors, the Committee takes account of the policy for employees across the workforce. The remuneration policy is broadly consistent for executive Directors and the remainder of the workforce. It should be noted that the constituent parts of the employees' remuneration package, which includes both an option and bonus scheme, were similar to those of the Directors and that the average pay increase awarded for 2013 was in line with the basic increase made to the Directors.

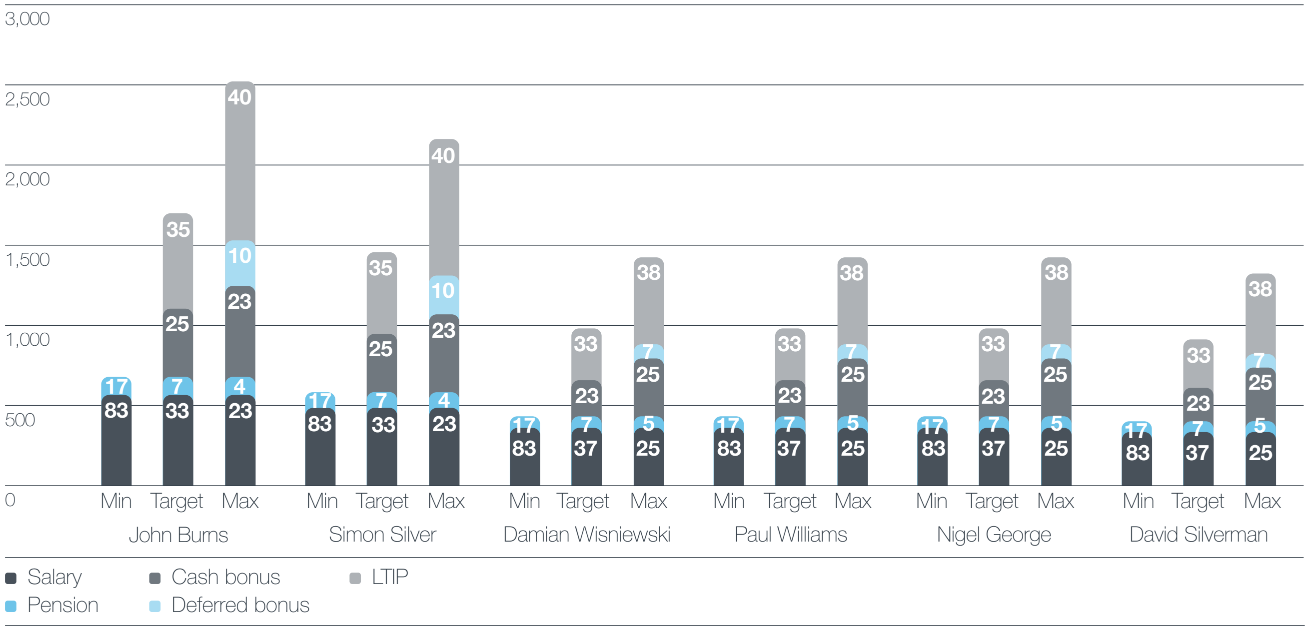
How the views of shareholders are taken into account

The Committee actively seeks dialogue with shareholders and values their input in helping to formulate the Company's remuneration policy. Any feedback received from shareholders is considered as part of the Committee's annual review of remuneration policy.

Remuneration scenarios for executive Directors

The Committee aims to provide a significant part of the Directors' total remuneration through variable pay and the following diagram illustrates the remuneration opportunity provided to the Directors by the current remuneration structure at minimum, target and maximum levels of performance.

Total remuneration opportunity[1] £'000



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[1] The figures in this graph represent the percentages of total remuneration for each given scenario

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

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Implementation report

Remuneration Committee

At the start of the year, the Remuneration Committee (the Committee) consisted of Stuart Corbyn, June de Moller and Stephen Young under the chairmanship of Robert Farnes. On 1 April 2012 June de Moller took over as chairman of the Committee because Robert Farnes had reached nine years of service on this date. Simon Fraser joined the Committee on 1 January 2013. 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 full terms of reference of the Committee are available on the Company's website.

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

New Bridge Street (NBS) – a trading name of Aon Hewitt Limited (an Aon plc company) – was retained to provide independent assistance to the Committee regarding the setting of salaries and the operation of the PSP and bonus scheme. In particular, NBS determined entitlements under the bonus scheme and the extent of vesting of the conditional share awards and ensures that the measures used for both schemes are comparable and consistent. During 2012 NBS received fees amounting to £28,000 for advising the Committee and did not provide any other services to the Group during the year. No Director had any involvement in determining his own remuneration although some of the matters considered by the Committee were discussed with John Burns. The Company Secretary acted as secretary to the Committee.

Table 1

2012	Salary and fees £'000	Bonus		Benefits in kind £'000	Sub total £'000	Gains from equity-settled schemes £'000	Total £'000	Pension and life assurance £'000
		Cash £'000	Deferred £'000					
Executive								
J.D. Burns	567	567	160	50	1,344	931	2,275	112
S.P. Silver	486	486	137	35	1,144	792	1,936	96
D.M.A. Wisniewski	361	361	24	20	766	–	766	72
N.Q. George	361	361	24	16	762	479	1,241	75
P.M. Williams	361	361	24	20	766	479	1,245	76
D.G. Silverman	335	335	23	19	712	402	1,114	67
Non-executive								
R.A. Rayne	150	–	–	32	182	672	854	–
J.C. Ivey	58	–	–	–	58	–	58	–
S.J. Neathercoat	43	–	–	–	43	–	43	–
R.A. Farnes	55	–	–	–	55	–	55	–
S.A. Corbyn	60	–	–	–	60	–	60	–
J. de Moller	54	–	–	–	54	–	54	–
S.G. Young	56	–	–	–	56	–	56	–
S. Fraser	15	–	–	–	15	–	15	–
	2,962	**2,471**	**392**	**192**	**6,017**	**3,755**	**9,772**	**498**

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

Donald Newell retired in May 2011 and Simon Fraser joined the Board on 1 September 2012.

The gains from equity-settled schemes are based on i) the TSR element of the 2009 PSP award which vested on 2 May 2012 based on a performance period which ended on 15 April 2012 and a share price of £17.57 (being the share price at the date of vesting), and ii) the NAV element of the 2009 PSP award which was based on a performance period which ended on 31 December 2011 and also vested on 2 May 2012 with the same share price.

This approach is not in accordance with the latest BIS proposals and will be reviewed over the next year once the proposals and their related guidance have been finalised.

Determination of 2012 annual bonus outcome

Provision has been made for a bonus for 2012 of 85.41% (2011: 90.00%) of the maximum potential. In making this award, the Committee has given due regard to the performance measures mentioned above, the Group's total shareholder return for the year and the other achievements outlined earlier in the report and accounts in particular the further diversification of the Group's sources of finance, the progress made with the development pipeline, the level of lettings achieved and the astute acquisitions and disposals.

Performance Share Plan

Details of the conditional share awards held by Directors and employees under the Group's PSP at 31 December 2012 are given in the table below:

Table 2

Market price at award date £	Earliest vesting date	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
11.57	05/06/11	75,625	64,275	40,825	38,875	38,875	28,500	–	15,550	302,525
8.25	15/04/12	106,000	90,150	57,250	54,500	54,500	42,700	–	23,000	428,100
13.66	01/04/13	67,250	57,650	–	36,780	36,780	30,190	34,590	14,640	277,880
Interest as at 1 January 2011		248,875	212,075	98,075	130,155	130,155	101,390	34,590	53,190	1,008,505
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
16.43	01/04/14	58,550	50,250	–	31,950	31,950	27,350	31,000	12,750	243,800
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
11.57	18.22	(37,813)	(32,138)	–	(19,438)	(19,438)	(14,250)	–	(7,775)	(130,852)
11.57	18.06	–	–	(13,608)	–	–	–	–	–	(13,608)
11.57	Lapsed	(37,812)	(32,137)	(27,217)	(19,437)	(19,437)	(14,250)	–	(7,775)	(158,065)
Interest as at 31 December 2011		231,800	198,050	57,250	123,230	123,230	100,240	65,590	50,390	949,780
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
17.19	12/04/2015	57,720	49,475	–	31,500	31,500	29,230	31,500	12,620	243,545
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
8.25	17.57	(53,000)	(45,075)	(19,083)	(27,250)	(27,250)	(21,350)	–	(11,500)	(204,508)
8.25	Lapsed	(53,000)	(45,075)	(38,167)	(27,250)	(27,250)	(21,350)	–	(11,500)	(223,592)
Interest as at 31 December 2012		**183,520**	**157,375**	**–**	**100,230**	**100,230**	**86,770**	**97,090**	**40,010**	**765,225**

	31 December 2012	31 December 2011	1 January 2011
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.21 years	1.08 years	1.30 years

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2012 was £nil (2011: £nil). The weighted average market price at the date of vesting in 2012 was £17.57 (2011: £18.20).

For all awards granted under the PSP:

- half of the shares vest based on TSR performance relative to a comparator group of companies; and
- half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2012 comprised the following – Big Yellow Group plc, British Land plc, Capital & Regional plc, Capital Shopping Centres Group plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. 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 out-performing the median performing property by 5% per annum.

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

Determination of PSP awards vesting

The performance criteria in respect of the 2009 award were measured on 16 April 2012 and showed an overall vesting percentage of 50% as a result of the group achieving upper quartile TSR performance against the comparator group and that part of the award thus vesting in full. The balance of the 2009 award (based on NAV performance measured to 31 December 2011) lapsed.

As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR and NAV performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and total return, the Committee concluded that, for the parts of the 2009 and 2010 awards with measurement periods ending in 2012, this was the case.

Share option schemes

Details of the options held by Directors and employees under the Group's share option schemes at 31 December 2012 are given in table 3 below. Disclosure relating to a further share option scheme in which the Directors do not participate is given in note 14.

Table 3

Exercise price £	Date from which exercisable	Expiry date	D.G. Silverman	Employees	Total
10.710	26/04/08	25/04/15	–	7,000	7,000
13.630	08/06/09	07/06/16	6,750	4,500	11,250
Outstanding at 1 January 2011			6,750	11,500	18,250
No options were granted, exercised or lapsed in 2011					
Outstanding at 31 December 2011			6,750	11,500	18,250

Options exercised during 2012

Exercise price £	Market price at date of exercise £	D.G. Silverman	Employees	Total
13.63	17.57	(6,750)	–	(6,750)
10.71	19.70	–	(7,000)	(7,000)
		(6,750)	(7,000)	(13,750)
Outstanding at 31 December 2012		**–**	**4,500**	**4,500**

The weighted average exercise price of options exercised in 2012 was £12.14 (2011: £nil) and the weighted average market price at the date of exercise was £18.65 (2011: £nil).

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

	31 December 2012	31 December 2011	1 January 2011
Number of shares:			
Exercisable	4,500	18,250	18,250
Weighted average exercise price of share options:			
Exercisable	£13.63	£12.51	£12.51
Weighted average remaining contracted life of share options:			
Exercisable	3.44 years	4.01 years	5.01 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 the table below:

Table 4

Exercise price £	Expiry date	**R.A. Rayne**
7.54	29/08/13	65,615
9.92	01/09/14	50,274
12.03	28/06/15	41,456
Outstanding at 1 January 2011		157,345
No options were granted, exercised or lapsed in 2011		
Outstanding at 31 December 2011		157,345
Options exercised during 2012		
Exercise price £	Market price at date of exercise £	
7.54	17.79	(65,615)
Outstanding at 31 December 2012		**91,730**

The weighted average exercise price of options exercised during 2012 was £7.54 (2011: £nil) and the weighted average market price at the date of exercise £17.79 (2011: £nil).

In respect of the options outstanding at 31 December 2012 in table 4 the weighted average exercise price is £10.87 (2011: £9.48) and the weighted average remaining contracted life is 2.0 years (2011: 2.5 years).

The market price of the 5p ordinary shares at 31 December 2012 was £21.06 (2011: £15.60). During the year, they traded in a range between £15.35 and £21.53 (2011: £14.00 and £18.80).

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Deferred bonus shares

Details of the deferred bonus shares held by the Directors are given in the table below.

Table 5

			J.D. Burns	S.P. Silver	D.M.A. Wisniewski	N.Q. George	P.M. Williams	D.G. Silverman	Total
Interest at 1 January 2011			–	–	–	–	–	–	–
Deferred in 2011:									
	Date of deferment	Value per share on deferment £							
	25/03/11	16.60	9,883	8,471	1,631	1,892	1,892	1,553	25,322
Interest at 31 December 2011			9,883	8,471	1,631	1,892	1,892	1,553	25,322
Deferred in 2012:									
	Date of deferment	Value per share on deferment £							
	29/03/12	17.37	11,082	9,510	2,447	2,519	2,519	2,159	30,236
Vested in 2012:									
	Date of vesting	Value per share on vesting £							
	02/04/12	17.31	(4,942)	(4,236)	(816)	(946)	(946)	(777)	(12,663)
Interest at 31 December 2012			**16,023**	**13,745**	**3,262**	**3,465**	**3,465**	**2,935**	**42,895**

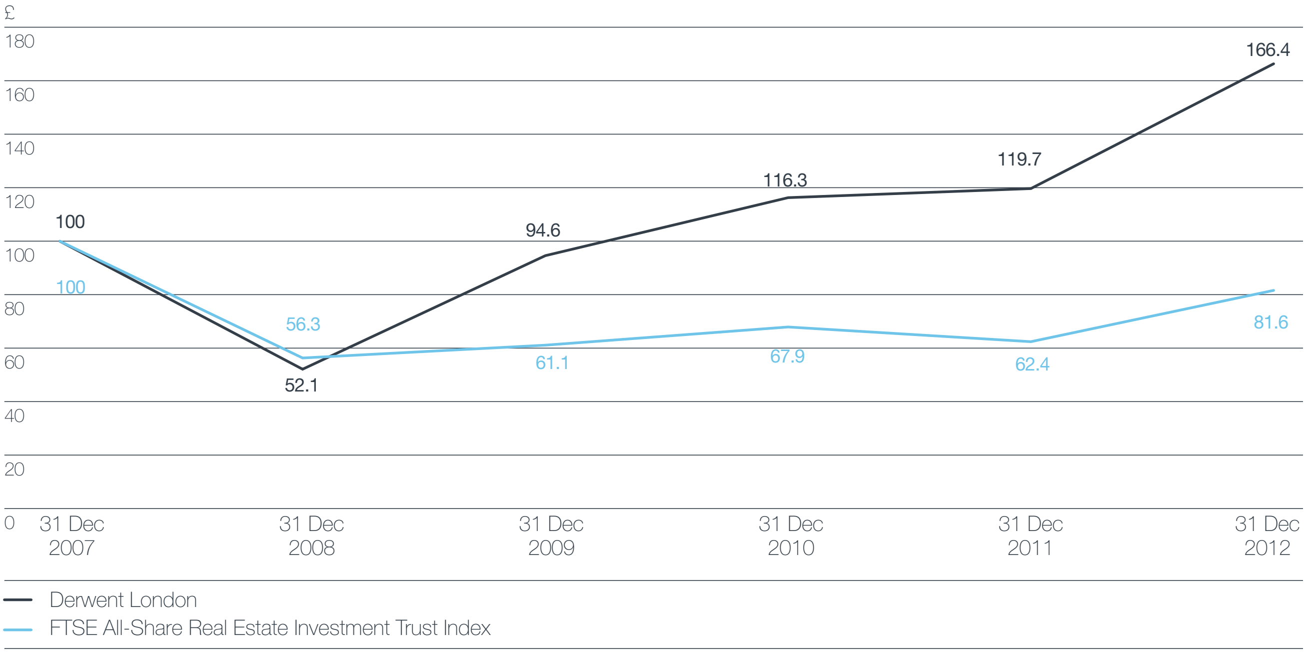
Directors' interests and shareholding guideline

	£'000			Number of shares			
	2012 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	**Total**
J.D. Burns	567	1,134	16,363	760,031	16,023	183,520	**959,574**
S.P. Silver	486	486	7,857	364,939	13,745	157,375	**536,059**
D.M.A. Wisniewski	361	361	18	816	3,262	97,090	**101,168**
N.Q. George	361	361	729	33,846	3,465	100,230	**137,541**
P.M. Williams	361	361	767	35,622	3,465	100,230	**139,317**
D.G. Silverman	335	335	191	8,879	2,935	86,770	**98,584**

[1] Valued at £21.53 the value of a 5p ordinary share in the Company on 26 February 2013

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

Net investment total shareholder return
2007–2012



Source: Thomson Reuters

This graph shows the value, by the end of 2012, of a return over five years of £100 invested in Derwent London compared to that of £100 invested in the FTSE All-Share Real Estate Investment Trusts Index. This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose. To produce a "fair value", each point is a 30-day average of the return.

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

On behalf of the Board.

June de Moller
Chairman of the Remuneration Committee
28 February 2013

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder

I am pleased to present the report of the Nominations Committee for 2012.

The year started with an external appraisal of the Board being undertaken for the first time and I was pleased that the overall conclusion on the balance and performance of the Board was positive.

This was the third year of the Board refreshment process that was commenced in 2010. The process was introduced to ensure that a number of independence issues that were identified at that time were addressed in an orderly manner. It has seen the appointment of Stephen Young in 2010 and Simon Fraser in 2012 and it is intended that a further independent non-executive Director will be appointed in 2013. At this point the issues identified back in 2010 will have been resolved but with seven non-executive Directors on the Board the process of change and refreshment is continuous.

A major consideration for the Committee when identifying new directors is the overall diversity of the Board and, in particular, its gender diversity. We were therefore pleased to note that the list of candidates provided by Spencer Stuart, the independent executive search agency appointed by the Committee to assist with the recruitment process, contained a number of high quality female candidates. The Board remains of the opinion that an appointment to the Board must be based primarily on merit and not tainted by any suggestion of positive discrimination. Accordingly, a comprehensive programme of interviews was undertaken involving both Committee members and other Directors, which resulted in the appointment of Simon Fraser in September.

Stuart A. Corbyn
Chairman of the Nominations Committee
28 February 2013

REPORT OF THE NOMINATIONS COMMITTEE

Throughout the year the Committee consisted of Simon Neathercoat, John Ivey, Robert Farnes, June de Moller and Stephen Young under the chairmanship of Stuart Corbyn. All members are considered independent by the Company having no day-to-day involvement with the Company.

Roles and responsibilities

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

Meetings

The Committee meets at least once a year to plan and, if appropriate, carry out the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's responsibilities in connection with identifying and nominating new Board members. The Committee met three times in 2012.

Work of the Committee

During the year the Committee has carried out the following:

- Reviewed the terms of reference for the Committee.
- Led the annual appraisal of the Board, its Committees and the Chairman.
- Reviewed the Group's succession planning for both executive and non-executive Directors.
- Continued with the policy of change and refreshment of the board through the introduction of new non-executive Directors which was commenced in 2010.
- Coordinated a series of interviews with candidates for appointment as a non-executive Director, having regard to the qualities required that had been identified at the start of the process before making a recommendation to the Board that Simon Fraser be appointed based on his extensive corporate broking and financial services experience.
- Reviewed the size and membership of the Board Committees following the appointment of Simon Fraser.
- Following the retirement of Simon Neathercoat, considered what areas of experience additional non-executive Directors should possess in order to further strengthen the Board.
- Continued to liaise with Spencer Stuart over the appointment of a further independent non-executive Director in 2013. Spencer Stuart provides no other services to the Group.

Stuart A. Corbyn
Chairman of the Nominations Committee
28 February 2013

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder

I am pleased to present the first report of the Risk Committee which covers its activities up to 31 December 2012.

The Committee was established in November 2011 with a mandate to keep under review the effectiveness of the Company's internal (non-financial) controls and risk management systems.

Since then, the perceived level of risk in the economy has remained high with continuing concerns over the Eurozone, the UK economy threatening to revert to recession and the "shareholder spring" reflecting a level of discontent amongst investors, principally around pay and governance. This environment saw risks arising from many sources, be it European driven regulation or the increased use of social media in the business world.

The Committee has reviewed and agreed the major risks faced by the Company and the relevant controls and mitigation plans. In 2012 this included, in particular, a review of the adequacy of new procedures introduced in response to the 2010 Bribery Act. However, new risks, especially those arising from new regulations, pose a continuous business risk and therefore we have decided to commission, on an annual basis, a report from the Group's legal advisors that looks at the year ahead and highlights any potential areas of risk. This will enable the Company's risks to be managed in a proactive manner.

Stephen G. Young
Chairman of the Risk Committee
28 February 2013

REPORT OF THE RISK COMMITTEE

The Committee was chaired by Stephen Young and served throughout the year by June de Moller, John Burns and Damian Wisniewski.

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

Meetings
The Committee met three times in its inaugural year but will in future meet twice a year unless extra meetings are deemed necessary for it to discharge its duties.

Work of the Committee
During the year the Committee:

- Reviewed the terms of reference of the Committee paying particular attention to the demarcation in duties between the Audit Committee and the Risk Committee.
- Conducted a detailed review of the controls and mitigation plans operating over the top ten risks on the Group's risk register.
- Facilitated an external review of the procedure introduced by the Group in order to comply with the "adequate procedures" requirements of the 2010 Bribery Act.
- Received presentations from senior management concerning controls over key parts of the business.
- Commissioned a report from the Group's legal advisors concerning potential regulatory risks that may arise over the next 12 months.
- Regularly reviewed the register of hospitality and gifts maintained under the group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.

Stephen G. Young
Chairman of the Risk Committee
28 February 2013

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

I am pleased to present the report of the Audit Committee which covers the year to 31 December 2012.

The Committee's primary responsibility is to review the financial information provided to shareholders on behalf of the Board, to review the Group's internal financial controls and to oversee the Company's relationship with the external auditor. In previous years, the Committee was also responsible for reviewing the Company's system of internal (non-financial) controls and risk management but, with the formation of the Risk Committee, this duty has been passed to that Committee.

The main agenda item at the four meetings of the Committee is to review the regular financial reports made to shareholders. Details of the further work carried out by the Committee are given in the report that follows. The Group's Finance Director is invited to all the meetings although time is allocated for the Committee to meet the auditor with no executive present. In addition, as Chairman of the Committee, I have separate meetings with the audit partner. Members of the Committee also meet with the external valuers twice a year to discuss the valuation of the Group's portfolio, which is the key judgement required in determining the accuracy of the financial statements.

Following its review of the UK Corporate Governance Code in 2012 the Financial Reporting Council (FRC) issued updated guidance for audit committees in respect of the new requirements. Whilst these requirements are not mandatory for the Company until next year, the report of the Audit Committee that follows has been expanded to include more detail on the specific matters raised by the FRC.

Stephen G. Young
Chairman of the Audit Committee
28 February 2013

REPORT OF THE AUDIT COMMITTEE

Membership

The Committee is chaired by Stephen Young. Stuart Corbyn, Robert Farnes and June de Moller served on the Committee throughout the year and Simon Fraser joined on 1 September 2012. Robert Farnes will step down from the Committee after the Group's AGM in May 2013. All members are considered independent by the Board, having no day-to-day involvement with the Company. Stephen Young is a qualified accountant and is considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise at the Company's expense, if required.

Roles and responsibilities

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

Meetings

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

Work of the Committee

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

- Reviewed the terms of reference for the Committee ensuring that they correctly reflect the change in responsibilities now that a Risk Committee had been established.
- Reviewed the Group's interim and annual financial statements and the published interim management statements considering whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

  In assessing this requirement, and subsequently reporting to the Board, the committee had regard to the following:

  - The adequacy of the systems and controls that exist for bringing all the relevant information to the attention of the preparers of the report and accounts.
  - The adequacy of the procedures for obtaining sufficient assurance over the accuracy of the information.
  - Whether the reports were consistent throughout and with each other and in accordance with the information provided to the Board during the year.

- Considered the appropriateness of the accounting policies, assumptions, judgements and estimates used in the preparation of the financial statements.

  In discharging this responsibility the Committee identified two significant issues which are set out below together with an explanation of how each was addressed:

  - Valuation of the Group's property portfolio
    The Committee includes members who have relevant and current expertise in property valuation and these Directors led two meetings with the Group's external valuer, one before the interim results and another before the final results, at which the portfolio valuation was reviewed on a property by property basis.

    The Committee also requested that the external auditor focus on this area and report to the Committee on the procedures they carried out and the results thereof.
  - Accounting controls
    In the absence of an internal audit function the Committee looks for external assurance on the operation of controls over certain parts of the business. This is achieved by instructing third parties (which may include the external auditor) to review the control environment in a particular area.

- Assessed the effectiveness of the external audit
  In carrying out this task the Committee took into account the views of both management and the auditor and reviewed the content of the management letter issued by the external auditor together with the responses of management to the comments made therein.
- Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external auditor.

  In assessing this matter the Committee noted the following:

  - Each year the auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. This is provided after the auditor has considered the following matters:

    - The level of the audit fee.
    - The nature of other services provided to the Group and the fees derived from them.
    - The existence and influence of any associated parties.
    - The duration of the appointment both of the audit firm and of any individuals involved on the audit.
    - Any participation in client affairs.
    - Any financial relationships including share ownership.
    - Any threatened or actual litigation involving the client.

  - The Company operates a policy under which the auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee.

- Considered the implication of the new requirement to put the external audit out to tender at least every 10 years. Having regard to the transitional measures proposed by the FRC the Committee currently plans to put the audit of the Group out to tender when the current audit partner reaches the end of his five-year term in 2014. BDO have been the Company's auditor since 1985.
- Reviewed the scope of the annual audit and the level of associated fees and considered the conduct of the audit before recommending the re-appointment of the Group's external auditor.
- Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business.
- Noted that the accounts for the Group's pension schemes had been audited and no matters raised.

Stephen G. Young
Chairman of the Audit Committee
28 February 2013

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of Derwent London plc for the year ended 31 December 2012 which comprise Group income statement, Group statement of comprehensive income, Group and parent Company balance sheets, Group and parent Company statements of changes in equity, Group and parent Company cashflow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

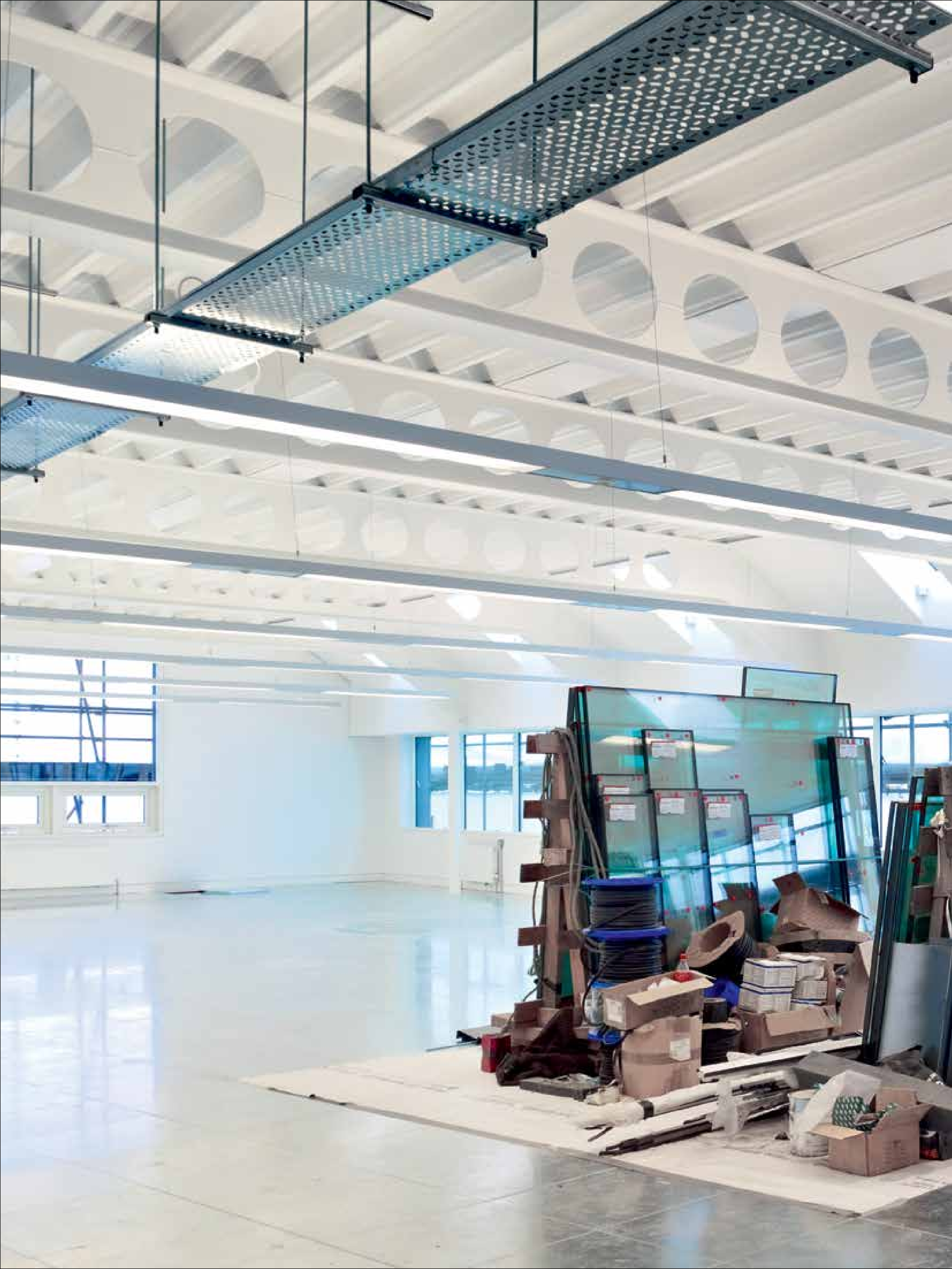
Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 78, in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Richard Kelly
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
28 February 2013

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

Spread overleaf:
Morelands Buildings EC1



FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Gross property and other income	5	**150.6**	150.9
Net property and other income	5	**117.0**	117.7
Administrative expenses		**(24.5)**	(22.8)
Movement in valuation of cash-settled share options		**(0.6)**	0.1
Total administrative expenses		**(25.1)**	(22.7)
Revaluation surplus	18	**174.4**	170.1
Profit on disposal of investment property	6	**6.9**	36.1
Profit on disposal of investment	7	**3.9**	–
Profit from operations		**277.1**	301.2
Finance income	8	**1.0**	1.1
Finance costs	8	**(41.8)**	(44.3)
Movement in fair value of derivative financial instruments		**(2.4)**	(26.5)
Financial derivative termination costs	9	**(6.9)**	–
Share of results of joint ventures	10	**1.1**	1.5
Profit before tax	11	**228.1**	233.0
Tax credit	16	**4.6**	1.3
Profit for the year		**232.7**	234.3
Attributable to:			
Equity shareholders	31	**226.9**	228.3
Minority interest		**5.8**	6.0
Earnings per share	17	**222.76p**	225.20p
Diluted earnings per share	17	**211.82p**	217.67p

The notes on pages 115 to 147 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	**2012** **£m**	2011 £m
Profit for the year		**232.7**	234.3
Actuarial gains/(losses) on defined benefit pension scheme	15	**1.2**	(3.5)
Revaluation surplus of owner-occupied property	18	**0.9**	2.0
Deferred tax on revaluation surplus	21	**0.3**	0.7
Foreign currency translation	8	**(0.3)**	–
Reclassification of exchange differences to income statement	7	**(3.9)**	–
Other comprehensive expense		**(1.8)**	(0.8)
Total comprehensive income relating to the year		**230.9**	233.5
Attributable to:			
Equity shareholders		**225.1**	227.5
Minority interest		**5.8**	6.0
		230.9	233.5

The notes on pages 115 to 147 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2012

	Note	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Non-current assets					
Investment property	18	**2,772.6**	2,444.9	**–**	–
Property, plant and equipment	19	**20.3**	19.4	**1.7**	1.6
Investments	20	**10.2**	9.7	**912.1**	837.6
Deferred tax	21	**0.5**	–	**4.3**	3.3
Pension scheme surplus	15	**0.2**	–	**0.2**	–
Other receivables	22	**60.9**	55.4	**–**	–
		2,864.7	2,529.4	**918.3**	842.5
Current assets					
Trade and other receivables	23	**50.8**	45.0	**792.4**	546.4
Corporation tax asset		**–**	–	**0.4**	0.8
Cash and cash equivalents	33	**4.4**	3.5	**1.2**	–
		55.2	48.5	**794.0**	547.2
Non-current assets held for sale	24	**16.5**	137.5	**–**	–
Total assets		**2,936.4**	2,715.4	**1,712.3**	1,389.7
Current liabilities					
Bank overdraft and loans	27	**–**	32.5	**–**	32.5
Trade and other payables	25	**80.5**	70.9	**107.7**	164.4
Corporation tax liability		**1.9**	1.3	**–**	–
Provisions	26	**1.7**	1.6	**0.6**	0.5
		84.1	106.3	**108.3**	197.4
Non-current liabilities					
Borrowings	27	**879.2**	835.5	**650.9**	359.8
Derivative financial instruments	27	**54.3**	51.9	**50.2**	30.7
Provisions	26	**0.8**	0.5	**0.8**	0.5
Pension scheme deficit	15	**–**	1.5	**–**	1.5
Deferred tax	21	**–**	5.2	**–**	–
		934.3	894.6	**701.9**	392.5
Total liabilities		**1,018.4**	1,000.9	**810.2**	589.9
Total net assets		**1,918.0**	1,714.5	**902.1**	799.8
Equity					
Share capital	29	**5.0**	5.0	**5.0**	5.0
Share premium	30	**165.3**	162.9	**165.3**	162.9
Other reserves	30	**934.0**	936.6	**681.9**	600.5
Retained earnings	30	**756.1**	558.2	**49.9**	31.4
Equity shareholders' funds		**1,860.4**	1,662.7	**902.1**	799.8
Minority interest		**57.6**	51.8	**–**	–
Total equity		**1,918.0**	1,714.5	**902.1**	799.8

The financial statements were approved by the Board of Directors and authorised for issue on 28 February 2013.

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

The notes on pages 115 to 147 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Group							
At 1 January 2012	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
Profit for the year	–	–	–	226.9	226.9	5.8	232.7
Other comprehensive income	–	–	(3.0)	1.2	(1.8)	–	(1.8)
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
At 31 December 2012	**5.0**	**165.3**	**934.0**	**756.1**	**1,860.4**	**57.6**	**1,918.0**
At 1 January 2011	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7
Profit for the year	–	–	–	228.3	228.3	6.0	234.3
Other comprehensive income	–	–	2.7	(3.5)	(0.8)	–	(0.8)
Share-based payments	–	–	0.5	1.9	2.4	–	2.4
Issue of convertible bonds	–	–	9.4	–	9.4	–	9.4
Dividends paid	–	–	–	(25.4)	(25.4)	(0.1)	(25.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2011	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
Company							
At 1 January 2012	5.0	162.9	600.5	31.4	799.8	–	799.8
Profit for the year	–	–	–	128.5	128.5	–	128.5
Other comprehensive income	–	–	–	1.2	1.2	–	1.2
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Transfer between reserves[2]	–	–	81.0	(81.0)	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
At 31 December 2012	**5.0**	**165.3**	**681.9**	**49.9**	**902.1**	**–**	**902.1**
At 1 January 2011	5.0	158.2	475.1	97.7	736.0	–	736.0
Profit for the year	–	–	–	90.3	90.3	–	90.3
Other comprehensive income	–	–	–	(3.5)	(3.5)	–	(3.5)
Share-based payments	–	–	0.5	1.9	2.4	–	2.4
Transfer between reserves[2]	–	–	124.9	(124.9)	–	–	–
Dividends paid	–	–	–	(25.4)	(25.4)	–	(25.4)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2011	5.0	162.9	600.5	31.4	799.8	–	799.8

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[1] See note 30.

[2] £71.6m (2011: £124.9m) of this transfer from retained earnings to other reserves relates to the impairment of the Company's investment in London Merchant Securities and the remainder relates to the equity portion of the long-term intercompany loan.

The notes on pages 115 to 147 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2012

		Group		Company	
	Note	2012 £m	2011 £m	2012 £m	2011 £m
Operating activities					
Property income		**118.1**	116.8	**–**	–
Property expenses		**(9.9)**	(13.1)	**–**	–
Cash paid to and on behalf of employees		**(17.8)**	(14.4)	**(17.1)**	(14.2)
Other administrative expenses		**(4.3)**	(5.2)	**(4.4)**	(5.0)
Interest received		**0.1**	–	**–**	–
Interest paid	8	**(33.3)**	(36.5)	**(22.0)**	(14.6)
Other finance costs		**(3.4)**	(1.8)	**(3.2)**	(1.5)
Other income		**2.5**	2.1	**2.4**	1.8
Tax (paid)/received in respect of operating activities		**(0.2)**	(0.7)	**0.2**	(0.5)
Net cash from/(used in) operating activities		**51.8**	47.2	**(44.1)**	(34.0)
Investing activities					
Acquisition of investment properties		**(99.8)**	(91.6)	**–**	–
Capital expenditure on investment properties	8	**(78.6)**	(42.6)	**–**	–
Disposal of investment properties		**161.0**	131.5	**–**	–
Purchase of property, plant and equipment		**(0.4)**	(0.2)	**(0.4)**	(0.2)
Distributions received from joint ventures		**0.7**	0.3	**0.4**	–
Purchase of investment in subsidiary		**–**	–	**(3.3)**	–
Advances to minority interest holder		**(2.4)**	(0.8)	**–**	–
Net cash used in investing activities		**(19.5)**	(3.4)	**(3.3)**	(0.2)
Financing activities					
Net proceeds of bond issue		**–**	170.2	**–**	–
Repayment of revolving bank loan		**(123.0)**	(75.0)	**–**	(75.0)
Drawdown of new revolving bank loan		**73.0**	–	**73.0**	–
Net movement in intercompany loans		**–**	–	**(174.9)**	180.3
Net movement in other revolving bank loans		**133.5**	(179.1)	**133.5**	(113.0)
Repayment of non-revolving bank loans		**(158.5)**	–	**(33.5)**	–
Drawdown of non-revolving bank loans		**–**	67.5	**–**	67.5
Drawdown of non-revolving loan		**81.6**	–	**81.6**	–
Repayment of loan notes		**(1.1)**	–	**(1.1)**	–
Financial derivative termination costs		**(6.9)**	–	**–**	–
Net proceeds of share issues	29	**0.4**	–	**0.4**	–
Dividends paid to minority interest holder		**–**	(0.1)	**–**	–
Dividends paid	32	**(30.4)**	(25.4)	**(30.4)**	(25.4)
Net cash (used in)/from financing activities		**(31.4)**	(41.9)	**48.6**	34.4
Increase in cash and cash equivalents in the year		**0.9**	1.9	**1.2**	0.2
Cash and cash equivalents at the beginning of the year		**3.5**	1.6	**–**	(0.2)
Cash and cash equivalents at the end of the year	33	**4.4**	3.5	**1.2**	–

The notes on pages 115 to 147 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, available for sale investments, and financial assets and liabilities held for trading. The accounting policies used are consistent with those applied in the 2011 annual financial statements, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year and the presentational change outlined below.

2 Changes in accounting policies

The principal accounting policies are described in note 41 and are consistent with those applied in the year ended 31 December 2011. The new standards adopted during 2012 are outlined below.

IFRS 7 Financial Instruments Disclosures (amendment); and
IAS 12 Income Taxes (amendment).

These had no material impact on the financial statements.

In accordance with best practice guidelines, a presentational change has been made such that, where the Group acts as a principal, service charge income and expenditure have been accounted for separately in the Group income statement. This has resulted in an increase in both the previously stated 2011 gross property and other income and property expenses of £23.4m, as shown in note 5. There is no impact on profit for the year or net assets.

Standards and interpretations in issue but not yet effective

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

IFRS 9 Financial Instruments;
IFRS 12 Disclosure of Interests in Other Entities;
IFRS 13 Fair Value Measurement;
IAS1 Presentation of Financial Statements (amendment);
IAS 19 Employee Benefits (amendment);
IAS 27 Separate Financial Statements;
IAS 28 Investments in Associates and Joint Ventures; and
IAS 32 Financial Instruments: Presentation.

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

IFRS 10 Consolidated Financial Statements; and
IFRS 11 Joint Arrangements.

3 Significant judgements, key assumptions and estimates

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

The Group's significant accounting policies are stated in note 41. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

Trade receivables

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

Property portfolio valuation

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

Outstanding rent reviews

Where the outcome of an outstanding rent review is reasonably certain, rent is accrued from the rent review date based upon an estimated annual rent. This estimate is derived from knowledge of market rents for comparable properties and is only accrued where the outcome is considered to be reasonably certain.

3 Significant judgements, key assumptions and estimates (continued)

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

The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax exempt business; and
- at least 90% of the tax exempt business must be distributed.

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

4 Segmental information

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

The internal financial reports received by the Group's executive Board contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the adjusted earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 17. Additionally, information is provided to the executive Board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and assets held for sale and comprises 93% office buildings[1] by value. The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 7% represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

No tenant accounts for more than 10% of gross property income in either 2012 or 2011, and no individual property accounts for more than 10% of the value of the property portfolio in either year.

All of the Group's properties are based in the UK. The Group also has a joint venture investment in Prague which represents 0.2% of the Group's assets (see note 20) and is excluded from this analysis. No geographical grouping is contained in any of the internal financial reports provided to the Group's executive Board. Therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the business review.

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

Gross property income

	2012			2011		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	78.0	1.9	**79.9**	79.1	3.4	82.5
West End borders	11.5	0.2	**11.7**	9.0	0.2	9.2
City borders	27.3	0.1	**27.4**	27.4	0.1	27.5
Provincial	–	5.8	**5.8**	–	6.3	6.3
	116.8	8.0	**124.8**	115.5	10.0	125.5

A reconciliation of gross property income to gross property and other income is given in note 5.

Property portfolio

	2012			2011		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	1,782.9	86.1	**1,869.0**	1,706.4	79.9	1,786.3
West End borders	244.5	9.9	**254.4**	210.5	9.8	220.3
City borders	590.2	4.5	**594.7**	480.2	2.7	482.9
Provincial	–	88.9	**88.9**	–	110.0	110.0
	2,617.6	189.4	**2,807.0**	2,397.1	202.4	2,599.5

	2012			2011		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Fair value						
West End central	1,806.4	86.2	**1,892.6**	1,726.7	80.0	1,806.7
West End borders	259.7	9.9	**269.6**	221.6	9.8	231.4
City borders	599.4	4.5	**603.9**	491.0	2.7	493.7
Provincial	–	93.5	**93.5**	–	114.7	114.7
	2,665.5	194.1	**2,859.6**	2,439.3	207.2	2,646.5

A reconciliation between the fair value and carrying value of the portfolio is set out in note 18.

5 Property and other income

	2012 £m	2011 £m
Rental income	**124.7**	124.1
Surrender premiums received	**0.3**	2.4
Write-off of associated rents previously recognised in advance	**(0.2)**	(1.0)
	0.1	1.4
Gross property income	**124.8**	125.5
Service charge income	**23.3**	23.4
Other income	**2.5**	2.0
Gross property and other income	**150.6**	150.9

Gross property income	**124.8**	125.5
Other income	**2.5**	2.0
Ground rents	**(0.5)**	(0.3)
Reverse surrender premiums	**(0.2)**	(1.9)
Service charge income	**23.3**	23.4
Service charge expenses	**(24.8)**	(25.8)
	(1.5)	(2.4)
Other property costs	**(8.1)**	(5.2)
Net property and other income	**117.0**	117.7

Included within rental income is £2.5m (2011: £1.8m) of income from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property, rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £8.2m (2011: £8.8m) relating to rents recognised in advance of the cash receipts.

Other income relates to fees and commissions earned in relation to the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of services. In 2011, it also included £0.2m of development income which represented the finalisation of the profit share earned by the Group from the project management of the construction and letting of a property on behalf of a third party.

Net property and other income includes costs of £0.5m (2011: £0.2m) relating to properties which produced no income during the year.

6 Profit on disposal of investment property

	2012 £m	2011 £m
Gross disposal proceeds	**162.0**	132.5
Costs of disposal	**(1.1)**	(1.2)
Net disposal proceeds	**160.9**	131.3
Carrying value	**(154.2)**	(95.0)
Adjustment for rents recognised in advance	**(0.9)**	(0.2)
Movement in grossing up of headlease liability	**1.1**	–
	6.9	36.1

7 Profit on disposal of investment

In March 2012, the Group liquidated a non-trading US subsidiary. In previous years, the retranslation of the US dollar denominated loan from this subsidiary resulted in foreign exchange movements being reflected in the income statement. The net asset impact in each year has been effectively nil as there was an equal and opposite movement taken to other comprehensive income on translation of the subsidiary's net asset balance. In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, on disposal of this foreign subsidiary, the cumulative amount of £3.9m of the exchange differences previously recognised in other comprehensive income and accumulated in the foreign exchange translation reserve has been reclassified to the income statement. As in previous years, the effect of this reclassification on net assets is effectively nil.

8 Finance income and costs

	2012 £m	2011 £m
Finance income		
Return on pension plan assets	**0.7**	0.8
Other	**–**	0.3
Foreign exchange gain	**0.3**	–
Total finance income	**1.0**	1.1
Finance costs		
Bank loans and overdraft	**21.9**	27.0
Non-utilisation fees	**3.3**	1.9
Secured bonds	**11.4**	11.4
Unsecured convertible bonds	**6.6**	3.8
Amortisation of issue and arrangement costs	**3.1**	2.0
Amortisation of the fair value of the secured bonds	**(0.8)**	(0.8)
Finance leases	**0.4**	0.5
Pension interest costs	**0.6**	0.6
Other	**0.2**	0.1
Gross interest costs	**46.7**	46.5
Less: interest capitalised	**(4.9)**	(2.2)
Total finance costs	**41.8**	44.3

Interest of £4.9m (2011: £2.2m) has been capitalised on development projects, in accordance with IAS 23, Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total interest paid during 2012 was £38.2m (2011: £38.5m) of which £4.9m (2011: £2.0m) was included in capital expenditure on investment properties in the Group cash flow statement under investing activities.

The foreign exchange gain in 2012 of £0.3m (2011: £nil) resulted from the retranslation of an intercompany loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement was effectively nil as there is an offsetting entry in equity (see Group statement of comprehensive income). The US subsidiary was liquidated in March 2012 (see note 7).

9 Financial derivative termination costs

In January 2012, the Group terminated two interest rate swaps with a principal amount of £130m and a weighted average rate of approximately 5.0%, excluding margin, which were due to expire in March 2013. The cost of breaking these swaps was £6.3m, a small discount to the additional interest charge that would have been incurred through the remaining life of the swaps.

In addition, in July 2012, the Group incurred costs of £0.6m breaking an interest rate swap with a principal amount of £65m and a weighted average rate of just under 2.0%, excluding margin, which was due to expire in March 2013.

10 Share of results of joint ventures

	2012 £m	2011 £m
Revaluation surplus	**0.3**	0.9
Other profit from operations after tax	**0.8**	0.6
	1.1	1.5

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

11 Profit before tax

	2012 £m	2011 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.4**	0.4
Contingent rent payable under property finance leases	**0.5**	0.3
Auditor's remuneration		
Audit – Group	**0.2**	0.3
Audit – subsidiaries	**0.1**	0.1

12 Directors' emoluments

	2012 **£m**	2011 £m
Remuneration for management services	**5.5**	5.5
Non-executive Directors' remuneration	**0.5**	0.5
Gain on exercise of share options	**3.8**	2.2
Pension contributions	**0.5**	0.5
	10.3	8.7
National insurance contributions	**1.4**	1.1
	11.7	9.8

Included within the figures shown in note 13 below are amounts recognised in the Group income statement, in accordance with IFRS 2, Share-based Payment, relating to the Directors. These are expenses of £3.3m (2011: £3.0m) and £0.7m (2011: credit £0.1m) relating to equity-settled and cash-settled share options respectively.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 89 to 99. The only key management personnel are the Directors.

13 Employees

	Group **2012** **£m**	2011 £m	**Company** **2012** **£m**	2011 £m
Staff costs, including those of Directors:				
Wages and salaries	**12.3**	11.0	**12.2**	11.0
Social security costs	**1.9**	1.6	**1.8**	1.6
Pension costs	**1.5**	1.3	**1.5**	1.3
Share-based payments expense relating to equity-settled schemes	**3.5**	3.3	**3.5**	3.3
Movement in valuation of cash-settled share options	**0.6**	(0.1)	**–**	–
National insurance contributions relating to cash-settled schemes	**0.1**	–	**–**	–
Share-based payments expense/(credit) relating to cash-settled schemes	**0.7**	(0.1)	**–**	–
	19.9	17.1	**19.0**	17.2

The average number of employees in the Group during the year, excluding Directors, was 83 (2011: 80). The average number of employees in the Company during the year, excluding Directors, was 79 (2011: 76). All were employed in administrative roles. In addition, there were a further 13 Group employees (2011: 13) whose costs were recharged to tenants.

14 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 89 to 99, other than the employee share plan that is detailed below.

Group and Company – equity-settled option scheme

This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 89 to 99. The Directors are not entitled to any awards under this scheme.

	Exercise price £	Date from which exercisable	Expiry date	Number of options
	6.10	18/03/2012	17/03/2019	59,500
	13.20	18/03/2013	17/03/2020	56,000
Outstanding at 1 January 2011				115,500
Options granted during the year	16.60	25/03/2014	24/03/2021	87,500
Options lapsed	6.10			(2,000)
Options lapsed	13.20			(3,000)
Options lapsed	16.60			(1,000)
Options lapsed during the year				(6,000)
Outstanding at 31 December 2011				197,000
Options granted during the year	17.19	12/04/2015	11/04/2022	99,750
Options exercised	6.10			(45,575)
Options lapsed	13.20			(3,000)
Options lapsed	16.60			(3,000)
Options lapsed during the year				(6,000)
Outstanding at 31 December 2012				**245,175**

14 Share-based payments (continued)

	31 December 2012	31 December 2011	1 January 2011
Number of shares:			
Exercisable	**11,925**	–	–
Non-exercisable	**233,250**	197,000	115,500
Weighted average exercise price of share options:			
Exercisable	**£6.10**	–	–
Non-exercisable	**£16.12**	£12.62	£9.54
Weighted average remaining contracted life of share options:			
Exercisable	**6.21 years**	–	–
Non-exercisable	**8.46 years**	8.37 years	8.70 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**–**	–	–
Non-exercisable	**£14.90**	£11.40	£8.47

The following information is relevant in the determination of the fair value of the options granted during 2011 and 2012 under the equity-settled employee share plan operated by the Group.

	2012	2011
Option pricing model used	**Binominal lattice**	Binominal lattice
Risk free interest rate	**0.7%**	2.4%
Volatility	**41.0%**	40.0%
Dividend yield	**1.8%**	1.8%

For both the 2012 and 2011 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

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

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

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31 December 2012 of £21.06 (2011: £15.60) and a dividend yield of 1.5% (2011: 1.9%) were used together with a risk-free interest rate of 0.3% (2011: 0.3%).

Due to the small number of individuals who have been granted these options, an assumption of zero employee turnover has been made. Additionally, volatility of 18% pa has been used for options with expected terms of one year, which now covers all outstanding awards (2011: 28% pa and 25% pa for options with expected terms of one and two years 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 31 December 2012, 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.

15 Pension costs

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

Defined contribution plan

The total expense relating to this plan in the current year was £1.2m (2011: £0.9m).

Defined benefit plan

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

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 5.4% pa (2011: 6.9% pa) and that salaries will be increased at 4.4% pa (2011: 4.6% pa). The market value of assets of the scheme at 31 December 2012 was £12.0m (2011: £13.2m) and the actuarial value of those assets on an ongoing basis represented 102% (2011: 90%) of the benefit of £11.8m (2011: £14.7m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.2m (2011: £1.5m deficit). The Group paid a deficit reduction contribution of £0.5m during the year (2011: £1.0m).

Defined benefit obligations

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	**(11.8)**	(14.7)	(10.9)	(9.9)	(7.7)
Fair value of plan assets	**12.0**	13.2	12.0	10.7	8.7
Unrecognised surplus	**–**	–	(0.4)	–	–
Recognised surplus/(deficit) for defined benefit obligations	**0.2**	(1.5)	0.7	0.8	1.0

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
At 1 January	**(1.5)**	0.7	0.8	1.0	2.8
Net return	**0.5**	1.3	0.3	–	0.3
Actuarial profits/(losses) recognised in retained earnings	**1.2**	(3.5)	(0.4)	(0.2)	(2.1)
At 31 December	**0.2**	(1.5)	0.7	0.8	1.0

Income recognised in the income statement

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Current service costs	**(0.1)**	(0.1)	(0.1)	(0.1)	(0.1)
Interest on obligation	**(0.6)**	(0.6)	(0.6)	(0.5)	(0.5)
Expected return on plan assets	**0.7**	0.8	0.8	0.6	0.8
	–	0.1	0.1	–	0.2

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Administrative expenses	**(0.1)**	(0.1)	(0.1)	(0.1)	(0.1)
Finance costs	**(0.6)**	(0.6)	(0.6)	(0.5)	(0.5)
Finance income	**0.7**	0.8	0.8	0.6	0.8
	–	0.1	0.1	–	0.2

Change in the fair value of plan assets

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
At 1 January	**13.2**	12.0	10.7	8.7	11.6
Expected return	**0.7**	0.8	0.8	0.6	0.8
Total contributions	**0.5**	1.1	0.1	0.1	0.1
Benefits paid	**(2.6)**	(0.5)	(0.4)	–	(0.4)
Actuarial gains/(losses)	**0.2**	(0.2)	0.8	1.3	(3.4)
At 31 December	**12.0**	13.2	12.0	10.7	8.7

The actual return on the plan assets for the year was £0.9m (2011: £0.6m). The overall expected return on plan assets is derived as the weighted average of the long-term expected returns from each of the main asset classes. The long-term expected rate of return on cash is determined by reference to gilt rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected rates of return on equities and property are based on the rate of return on bonds with allowance for outperformance.

15 Pension costs (continued)

Changes in the present value of defined benefit obligations

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
At 1 January	**14.7**	10.9	9.9	7.7	8.8
Service cost	**0.1**	0.1	0.1	0.1	0.1
Interest cost	**0.6**	0.6	0.6	0.5	0.5
Benefits paid	**(2.6)**	(0.5)	(0.5)	–	(0.4)
Actuarial (gains)/losses	**(1.0)**	3.6	0.8	1.6	(1.3)
At 31 December	**11.8**	14.7	10.9	9.9	7.7

Experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience gains/(losses) on plan assets	**0.2**	(0.2)	0.8	1.3	(3.4)
Experience (losses)/gains on plan liabilities	**(0.4)**	(3.6)	(0.8)	(1.6)	1.3

Analysis of plan assets

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Equities	**0.2**	2.3	2.9	9.3	6.6
Bonds	**2.6**	2.2	2.0	1.0	1.3
Property	**–**	–	–	–	0.1
Cash	**0.7**	1.4	0.3	0.4	0.7
Funds	**8.5**	7.3	6.8	–	–
Total	**12.0**	13.2	12.0	10.7	8.7

Principal actuarial assumptions

	2012	2011	2010	2009	2008
Discount rate at 31 December (% pa)	**4.7**	4.7	5.4	5.7	6.3
Expected return on plan assets at 31 December (% pa)	**5.4**	6.9	7.7	7.1	6.8
Future salary increases (% pa)	**4.4**	4.6	5.0	5.0	4.4
Inflation (% pa)	**2.9**	3.1	3.5	3.5	2.9
Future pension increases (% pa)	**4.4**	4.6	5.0	5.0	5.0
Mortality rate					
Male retiring at age 65 (years)	**23.5**	24.1	22.1	22.0	22.0
Female retiring at age 65 (years)	**25.9**	26.5	25.0	24.9	24.8
Male retiring at age 65 if aged 45 today (years)	**25.4**	26.1	23.1	23.1	23.1
Female retiring at age 65 if aged 45 today (years)	**27.8**	28.4	25.9	25.9	25.9

16 Tax credit

	2012 £m	2011 £m
Corporation tax		
UK corporation tax and income tax on profit for the year	**(0.6)**	(0.5)
Other adjustments in respect of prior years' tax	**(0.2)**	1.8
Corporation tax (charge)/credit	**(0.8)**	1.3
Deferred tax		
Origination and reversal of temporary differences	**5.1**	(0.4)
Adjustment for changes in estimates	**0.3**	0.4
Deferred tax credit	**5.4**	–
Tax credit	**4.6**	1.3

In addition, a deferred tax credit of £0.3m (2011: £0.7m) was recognised in the Group statement of comprehensive income relating to revaluation of the owner-occupied property.

16 Tax credit (continued)

The effective rate of tax for 2012 is lower (2011: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2012 **£m**	2011 £m
Profit before tax	**228.1**	233.0
Expected tax charge based on the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)[1]	**(55.9)**	(61.7)
Difference between tax and accounting profit on disposals	**1.1**	9.6
REIT exempt income	**5.6**	7.6
Revaluation surplus attributable to REIT properties	**42.3**	44.5
Expenses and fair value adjustments not deductible/(allowable) for tax purposes	**4.7**	(3.2)
Capital allowances	**3.3**	3.8
Origination and reversal of temporary differences	**5.1**	–
Other differences	**(1.4)**	(1.1)
Tax credit/(charge) on current year's profit	**4.8**	(0.5)
Adjustments in respect of prior years' tax	**(0.2)**	1.8
	4.6	1.3

[1] The expected tax rate for 2012 has been changed in line with the 2012 Finance Act.

17 EPRA performance measures

Summary table

	2012		2011	
		Pence per share **p**		Pence per share p
EPRA earnings	**£51.3m**	**50.36**	£52.3m	51.59
EPRA adjusted net asset value	**£1,933.9m**	**1,886**	£1,739.8m	1,701
EPRA triple net asset value	**£1,820.2m**	**1,775**	£1,644.3m	1,607
EPRA net initial yield	**4.3%**		4.4%	
EPRA "topped-up" net initial yield	**4.8%**		5.2%	
EPRA vacancy rate	**1.6%**		1.3%	

The definition of these measures can be found on page 150.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2012 **'000**	2011 '000	**2012** **'000**	2011 '000
For use in basic measures	**101,859**	101,375	**102,014**	101,641
Dilutive effect of convertible bonds	**7,876**	4,587	**–**	–
Dilutive effect of share-based payments	**500**	667	**523**	656
For use in diluted earnings per share	**110,235**	106,629	**102,537**	102,297
Less dilutive effect of convertible bonds	**(7,876)**	(4,587)	**–**	–
For use in other diluted measures	**102,359**	102,042	**102,537**	102,297

On 2 June 2011, the Group issued £175m of unsecured convertible bonds, with an initial conversion price set at £22.22. Although it was not expected that the bonds would be converted at the share price at either year end (2012: £21.06; 2011: £15.60), the dilutive effect of these shares is required to be recognised in accordance with IAS 33, Earnings Per Share. For 2012 and 2011, these shares are dilutive for basic earnings per share. However, they are anti-dilutive for both EPRA and underlying earnings per share and all net asset per share measures, and have therefore been excluded from those calculations.

17 EPRA performance measures (continued)

Profit before tax, earnings and earnings per share

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2012		233.5		211.82
Interest effect of dilutive convertible bonds		(6.6)		
Undiluted profit/earnings	228.1	226.9	222.76	
Adjustment for:				
Disposal of properties	(6.9)	(6.9)		
Disposal of investment	(3.9)	(3.9)		
Group revaluation surplus	(174.4)	(178.8)		
Joint venture revaluation surplus	(0.3)	(0.3)		
Fair value movement in derivative financial instruments	2.4	2.4		
Financial derivative termination costs	6.9	6.9		
Movement in valuation of cash-settled share options	0.6	0.6		
Minority interests in respect of the above	–	4.4		
EPRA	**52.5**	**51.3**	**50.36**	**50.12**
Foreign exchange gain	(0.3)	(0.3)		
Rates credits	(0.3)	(0.3)		
Underlying	51.9	50.7	49.77	49.53

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2011		232.1		217.67
Interest effect of dilutive convertible bonds		(3.8)		
Undiluted profit/earnings	233.0	228.3	225.20	
Adjustment for:				
Disposal of properties	(36.1)	(36.1)		
Group revaluation surplus	(170.1)	(169.5)		
Joint venture revaluation surplus	(0.9)	(0.9)		
Fair value movement in derivative financial instruments	26.5	26.5		
Movement in valuation of cash-settled share options	(0.1)	(0.1)		
Minority interests in respect of the above	–	4.1		
EPRA	52.3	52.3	51.59	51.25
Rates credits	(1.6)	(1.6)		
Underlying	50.7	50.7	50.01	49.69

17 EPRA performance measures (continued)

Net asset value and net asset value per share

	£m	Basic p	Diluted p
At 31 December 2012			
Net assets	1,918.0		
Minority interest	(57.6)		
Net assets attributable to equity shareholders	1,860.4	1,824	1,814
Adjustment for:			
Deferred tax on revaluation surplus	4.1		
Fair value of derivative financial instruments	54.3		
Fair value adjustment to secured bonds	17.8		
Minority interest in respect of the above	(2.7)		
EPRA adjusted net asset value	**1,933.9**	**1,896**	**1,886**
Adjustment for:			
Deferred tax on revaluation surplus	(4.1)		
Fair value of derivative financial instruments	(54.3)		
Mark-to-market of unsecured bonds	(20.0)		
Mark-to-market of secured bonds	(39.0)		
Mark-to-market of fixed rate secured loan	1.0		
Minority interest in respect of the above	2.7		
EPRA triple net asset value	1,820.2	1,784	1,775

At 31 December 2011			
Net assets	1,714.5		
Minority interest	(51.8)		
Net assets attributable to equity shareholders	1,662.7	1,636	1,625
Adjustment for:			
Deferred tax on revaluation surplus	8.8		
Fair value of derivative financial instruments	51.9		
Fair value adjustment to secured bonds	18.6		
Minority interest in respect of the above	(2.2)		
EPRA adjusted net asset value	1,739.8	1,712	1,701
Adjustment for:			
Deferred tax on revaluation surplus	(8.8)		
Fair value of derivative financial instruments	(51.9)		
Mark-to-market of unsecured bonds	2.4		
Mark-to-market of secured bonds	(39.4)		
Minority interest in respect of the above	2.2		
EPRA triple net asset value	1,644.3	1,618	1,607

17 EPRA performance measures (continued)

Net initial yield and "topped-up" net initial yield

	2012 £m	2011 £m
Property portfolio – wholly owned	**2,859.6**	2,646.5
Share of joint ventures	**20.5**	20.2
Less non-EPRA properties[1]	**(583.8)**	(280.8)
Completed property portfolio	**2,296.3**	2,385.9
Allowance for:		
Estimated purchasers' costs	**132.0**	137.2
Estimated costs to complete	**0.5**	2.2
EPRA property portfolio valuation (A)	**2,428.8**	2,525.3
Annualised contracted rental income, net of ground rents	**119.6**	113.1
Share of joint ventures	**1.9**	1.6
Less non-EPRA properties[1]	**(15.0)**	(3.5)
Add outstanding rent reviews	**0.7**	1.2
Less estimate of non-recoverable expenses	**(1.6)**	(1.8)
	(15.9)	(4.1)
Current income net of non-recoverable expenses (B)	**105.6**	110.6
Contractual rental increases across the portfolio	**21.0**	20.8
Less non-EPRA properties[1]	**(9.0)**	–
Contractual rental increases across the EPRA portfolio	**12.0**	20.8
"Topped-up" net annualised rent (C)	**117.6**	131.4
EPRA net initial yield (B ÷ A)	**4.3%**	4.4%
EPRA "topped-up" net initial yield (C ÷ A)	**4.8%**	5.2%

Vacancy rate

	2012 £m	2011 £m
Annualised estimated rental value of vacant premises	**2.1**	1.9
Portfolio estimated rental value	**175.0**	160.4
Less non-EPRA properties[1]	**(44.1)**	(19.4)
	130.9	141.0
EPRA vacancy rate	**1.6%**	1.3%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

18 Investment property

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
Group						
Carrying value						
At 1 January 2012	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5
Acquisitions	57.1	44.4	101.5	–	–	101.5
Capital expenditure	63.9	13.2	77.1	–	0.4	77.5
Interest capitalisation	4.2	0.7	4.9	–	–	4.9
Additions	125.2	58.3	183.5	–	0.4	183.9
Disposals	(16.1)	(0.2)	(16.3)	–	(137.9)	(154.2)
Depreciation	–	–	–	(0.1)	–	(0.1)
Transfers	(17.7)	1.2	(16.5)	–	16.5	–
Revaluation	136.3	38.1	174.4	0.9	–	175.3
Movement in grossing up of headlease liabilities	–	2.6	2.6	–	–	2.6
At 31 December 2012	**2,296.6**	**476.0**	**2,772.6**	**17.9**	**16.5**	**2,807.0**
At 1 January 2011	1,965.7	407.6	2,373.3	15.2	–	2,388.5
Acquisitions	85.5	6.1	91.6	–	–	91.6
Capital expenditure	32.5	6.5	39.0	–	2.0	41.0
Interest capitalisation	1.9	0.3	2.2	–	–	2.2
Additions	119.9	12.9	132.8	–	2.0	134.8
Disposals	(95.0)	–	(95.0)	–	–	(95.0)
Depreciation	–	–	–	(0.1)	–	(0.1)
Transfers	(58.0)	(66.3)	(124.3)	–	123.5	(0.8)
Revaluation	136.3	21.8	158.1	2.0	12.0	172.1
At 31 December 2011	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5
Adjustments from fair value to carrying value						
At 31 December 2012						
Fair value	2,353.9	471.3	2,825.2	17.9	16.5	2,859.6
Rents recognised in advance	(57.3)	(4.2)	(61.5)	–	–	(61.5)
Grossing up of headlease liabilities	–	8.9	8.9	–	–	8.9
Carrying value	**2,296.6**	**476.0**	**2,772.6**	**17.9**	**16.5**	**2,807.0**
At 31 December 2011						
Fair value	2,118.4	373.8	2,492.2	17.1	137.2	2,646.5
Rents recognised in advance	(49.5)	(4.1)	(53.6)	–	(0.8)	(54.4)
Grossing up of headlease liabilities	–	6.3	6.3	–	1.1	7.4
Carrying value	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2012 by external valuers on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2012). The valuers' opinion was primarily derived using comparable recent market transactions on arm's length terms. CBRE Limited valued properties at £2,829.1m (2011: £2,615.2m) and other valuers at £30.5m (2011: £31.3m). Of the properties revalued by CBRE, £17.9m (2011: £17.1m) relating to owner-occupied property was included within property, plant and equipment and £16.5m (2011: £137.2m) was included within non-current assets held for sale.

The total fees, including the fee for this assignment, earned by CBRE (or other companies forming part of the same group of companies within the UK) from the Group is less than 5.0% of its total UK revenues.

In 2011, the revaluation surplus in the income statement of £170.1m included the revaluation surplus for the non-current assets held for sale of £12.0m. The revaluation surplus for the owner-occupied property of £0.9m (2011: £2.0m) was included within the revaluation reserve.

In 2011, the transfer of £0.8m related to artwork held at the Group's properties which was previously capitalised as part of the property. However, as these items are transferable and would not necessarily be included with a sale of a property, they were transferred to property, plant and equipment (see note 19).

Historical cost

	2012 £m	2011 £m
Investment property	**2,205.8**	2,055.5
Owner-occupied property	**7.3**	7.3
Assets held for sale	**15.3**	69.2
Total property portfolio	**2,228.4**	2,132.0

19 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2012	17.1	1.5	0.8	19.4
Additions	–	–	0.4	0.4
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	0.9	–	–	0.9
At 31 December 2012	**17.9**	**1.5**	**0.9**	**20.3**
At 1 January 2011	15.2	0.7	0.8	16.7
Additions	–	–	0.3	0.3
Transfers	–	0.8	–	0.8
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	2.0	–	–	2.0
At 31 December 2011	17.1	1.5	0.8	19.4
Net book value				
Cost or valuation	17.9	1.5	2.2	21.6
Accumulated depreciation	–	–	(1.3)	(1.3)
At 31 December 2012	**17.9**	**1.5**	**0.9**	**20.3**
Net book value				
Cost or valuation	17.1	1.5	1.8	20.4
Accumulated depreciation	–	–	(1.0)	(1.0)
At 31 December 2011	17.1	1.5	0.8	19.4
Company				
At 1 January 2012	–	0.9	0.7	1.6
Additions	–	–	0.4	0.4
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2012	**–**	**0.9**	**0.8**	**1.7**
At 1 January 2011		0.1	0.6	0.7
Additions	–	–	0.3	0.3
Transfers	–	0.8	–	0.8
Depreciation	–	–	(0.2)	(0.2)
At 31 December 2011	–	0.9	0.7	1.6
Net book value				
Cost or valuation	–	0.9	2.0	2.9
Accumulated depreciation	–	–	(1.2)	(1.2)
At 31 December 2012	**–**	**0.9**	**0.8**	**1.7**
Net book value				
Cost or valuation	–	0.9	1.6	2.5
Accumulated depreciation	–	–	(0.9)	(0.9)
At 31 December 2011	–	0.9	0.7	1.6

The artwork is periodically valued by Bonhams on the basis of open market value and the Directors consider whether any valuation movements have taken place prior to each year end. The latest valuation was carried out in November 2012.

The historic cost of the artwork in the Group at 31 December 2012 was £1.5m (2011: £1.5m) and £0.9m (2011: £0.9m) in the Company. See note 18 for the historic cost of owner-occupied property.

20 Investments

Group

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

	2012 £m	2011 £m
At 1 January	**9.7**	8.4
Additions	**0.1**	0.1
Distributions received	**(0.7)**	(0.3)
Share of results of joint ventures (see note 10)	**1.1**	1.5
At 31 December	**10.2**	9.7

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

	2012 £m	2011 £m
Non-current assets	**20.5**	20.6
Current assets	**1.3**	2.1
Current liabilities	**(3.4)**	(4.3)
Non-current liabilities	**(8.2)**	(8.7)
Net assets	**10.2**	9.7
Income	**2.9**	3.5
Expenses	**(1.8)**	(2.0)
Profit for the year	**1.1**	1.5

Company

	Subsidiaries £m	Joint ventures £m	Total £m
Shares in subsidiaries			
At 1 January 2011	712.3	–	712.3
Impairment reversal	124.9	–	124.9
At 31 December 2011	837.2	–	837.2
Additions	3.3	–	3.3
Impairment reversal	71.6	–	71.6
At 31 December 2012	912.1	–	912.1
Loans			
At 1 January 2011 and 31 December 2011	–	0.4	0.4
Loan repayment	–	(0.4)	(0.4)
	–	–	–
At 31 December 2012	**912.1**	**–**	**912.1**
At 31 December 2011	837.2	0.4	837.6

At 31 December 2012 and 31 December 2011, the carrying value of the investment in London Merchant Securities Ltd was reviewed in accordance with IAS 36, Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the Company income statement. In the opinion of the Directors, the most appropriate estimate of the recoverable amount is the net asset value of the subsidiaries. In view of the valuation movement relating to the investment properties, there has been an increase in the net asset value of the subsidiaries (2011: increase) which has been reflected as an impairment reversal in the Company income statement of £71.6m (2011: £124.9m), all of which relates to the investment in London Merchant Securities Ltd.

21 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2012	(8.8)	3.6	(5.2)
Released during the year in other comprehensive income	0.2	–	0.2
Change in tax rates in other comprehensive income	0.1	–	0.1
Released during the year in the income statement	3.8	1.3	5.1
Change in tax rates in the income statement	0.6	(0.3)	0.3
At 31 December 2012	**(4.1)**	**4.6**	**0.5**
At 1 January 2011	(8.9)	3.0	(5.9)
Released during the year in other comprehensive income	0.6	–	0.6
Change in tax rates in other comprehensive income	0.1	–	0.1
(Provided)/released during the year in the income statement	(1.2)	0.8	(0.4)
Change in tax rates in the income statement	0.6	(0.2)	0.4
At 31 December 2011	(8.8)	3.6	(5.2)
Company			
At 1 January 2012	–	3.3	3.3
Provided during the year in the income statement	–	1.3	1.3
Change in tax rates in the income statement	–	(0.3)	(0.3)
At 31 December 2012	**–**	**4.3**	**4.3**
At 1 January 2011	–	2.6	2.6
Provided during the year in the income statement	–	0.8	0.8
Change in tax rates in the income statement	–	(0.1)	(0.1)
At 31 December 2011	–	3.3	3.3

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

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

22 Other receivables (non-current)

	Group 2012 £m	2011 £m	**Company 2012 £m**	2011 £m
Accrued income	**55.5**	50.1	**–**	–
Other	**5.4**	5.3	**–**	–
	60.9	55.4	**–**	–

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods, reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases. At 31 December 2012, the total rents recognised in advance were £61.5m (2011: £54.4m), with £6.0m of this amount (2011: £4.3m) included as current assets within trade and other receivables.

23 Trade and other receivables

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Trade receivables	**8.6**	9.0	**–**	–
Amounts owed by subsidiaries	**–**	–	**791.3**	544.5
Other receivables	**13.3**	13.0	**0.1**	0.7
Prepayments	**14.8**	16.5	**0.4**	0.7
Sales and social security taxes	**5.9**	2.2	**0.5**	0.5
Accrued income	**8.2**	4.3	**0.1**	–
	50.8	45.0	**792.4**	546.4

	2012 £m	2011 £m
Group trade receivables are split as follows:		
less than three months due	**8.4**	8.8
between three and six months due	**0.2**	0.2
	8.6	9.0

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

	2012 £m	2011 £m
At 1 January	**0.5**	0.9
Additions	**0.3**	0.6
Released	**(0.2)**	(1.0)
At 31 December	**0.6**	0.5
The provision for bad debts is split as follows:		
less than six months due	**0.6**	0.4
over twelve months due	**–**	0.1
	0.6	0.5

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

24 Non-current assets held for sale

	2012 £m	2011 £m
Investment properties (see note 18)	**16.5**	137.5

In February 2013, the Group exchanged contracts to sell two freehold properties for a total of £16.5m after costs.

In February 2012, the Group signed a joint venture agreement with Grosvenor, the freeholder of 1-5 Grosvenor Place SW1, to consider the redevelopment of the site. As part of this transaction, the Group was granted a 150-year headlease and sold 50% of its ownership to the Grosvenor Estate for £60.0m, before costs. In addition, at 31 December 2011, the Group had exchanged contracts to sell two properties, Riverwalk House SW1 and 232–242 Vauxhall Bridge Road SW1, with completion conditional on a suitable planning permission, the receipt of which occurred during the second half of 2012.

Therefore, at 31 December 2012 and 31 December 2011, respectively, these properties were recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale. See note 18 for historic cost of non-current assets held for sale.

25 Trade and other payables

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Trade payables	**7.9**	7.1	**6.1**	5.8
Amounts owed to subsidiaries	**–**	–	**89.9**	150.2
Other payables	**10.6**	10.9	**0.7**	0.2
Accruals	**25.7**	17.1	**10.9**	8.2
Deferred income	**36.3**	35.8	**0.1**	–
	80.5	70.9	**107.7**	164.4

26 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	Onerous contract £m	National insurance on share-based payments £m	Total £m
Group					
At 1 January 2012	1.0	–	0.3	0.8	2.1
Provided in the income statement	0.6	–	–	1.0	1.6
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	(0.7)	–	(0.3)	(0.6)	(1.6)
At 31 December 2012	**0.9**	**0.4**	**–**	**1.2**	**2.5**
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.4	–	0.4	0.8
	0.9	**0.4**	**–**	**1.2**	**2.5**
At 1 January 2011	1.1	–	0.4	0.6	2.1
(Released)/provided in the income statement	(0.1)	–	–	0.3	0.2
Utilised in year	–	–	(0.1)	(0.1)	(0.2)
At 31 December 2011	1.0	–	0.3	0.8	2.1
Due within one year	1.0	–	0.1	0.5	1.6
Due after one year	–	–	0.2	0.3	0.5
	1.0	–	0.3	0.8	2.1
Company					
At 1 January 2012	–	–	0.3	0.7	1.0
Provided in the income statement	–	–	–	0.9	0.9
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	–	–	(0.3)	(0.6)	(0.9)
At 31 December 2012	**–**	**0.4**	**–**	**1.0**	**1.4**
Due within one year	–	–	–	0.6	0.6
Due after one year	–	0.4	–	0.4	0.8
	–	**0.4**	**–**	**1.0**	**1.4**
At 1 January 2011	–	–	0.4	0.6	1.0
Provided in the income statement	–	–	–	0.2	0.2
Utilised in year	–	–	(0.1)	(0.1)	(0.2)
At 31 December 2011	–	–	0.3	0.7	1.0
Due within one year	–	–	0.1	0.4	0.5
Due after one year	–	–	0.2	0.3	0.5
	–	–	0.3	0.7	1.0

The potential liability for cash-settled share options is based on the valuation carried out at each balance sheet date (see note 14). Provisions are also made for those parts of the executive Directors' bonuses which are to be deferred in shares (see report of the Remuneration Committee).

The onerous contract, which was settled in 2012, reflected the discounted present value of future net payments (the excess of rent payable over rent receivable) under a lease at the Group's previous head office which was due to expire in August 2014.

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.

27 Borrowings and derivative financial instruments

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Current liabilities				
Unsecured bank loan	–	31.4	–	31.4
Loan notes	–	1.1	–	1.1
	–	32.5	–	32.5
Non-current liabilities				
2.75% unsecured convertible bonds 2016	165.0	162.4	–	–
6.5% secured bonds 2026	191.4	192.2	–	–
Intercompany loan	–	–	165.0	162.1
Bank loans	432.2	473.5	404.2	197.7
3.99% secured loan	81.7	–	81.7	–
Leasehold liabilities	8.9	7.4	–	–
	879.2	835.5	650.9	359.8
Derivative financial instruments expiring in greater than one year	54.3	51.9	50.2	30.7
Total liabilities	933.5	919.9	701.1	423.0

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Secured				
Bank loans	432.2	473.5	404.2	197.7
3.99% secured loan	81.7	–	81.7	–
6.5% secured bonds 2026	191.4	192.2	–	–
	705.3	665.7	485.9	197.7
Unsecured				
Loan notes	–	1.1	–	1.1
Bank loans	–	31.4	–	31.4
2.75% unsecured convertible bonds 2016	165.0	162.4	–	–
Long-term intercompany loan	–	–	165.0	162.1
	165.0	194.9	165.0	194.6
Gross debt	870.3	860.6	650.9	392.3
Leasehold liabilities	8.9	7.4	–	–
Total debt	879.2	868.0	650.9	392.3
Cash and cash equivalents	(4.4)	(3.5)	(1.2)	–
Net debt	874.8	864.5	649.7	392.3

At 31 December 2012, £1,510.6m (2011: £1,551.9m) and £174.5m (2011: £nil) of the Group's properties were subject to a fixed charge to secure the Group's bank loans and the 3.99% secured loan, respectively. In addition, the 2026 bonds are secured by a floating charge over a number of the Group's subsidiary companies which contain £521.0m (2011: £477.0m) of the Group's properties.

At 31 December 2012, £1,409.0m (2011: £945.3m) of the Group's properties were subject to a fixed charge to secure the Company's bank loans, and £174.5m (2011: £nil) to secure the 3.99% secured loan.

27 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 31 December 2012							
Bank loans	–	124.5	91.0	–	194.0	28.0	437.5
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
2.75% unsecured convertible bonds 2016	–	–	–	175.0	–	–	175.0
3.99% secured loan	–	–	–	–	–	83.0	83.0
Total on maturity	–	124.5	91.0	175.0	194.0	286.0	870.5
Leasehold liabilities	0.7	0.7	0.7	0.7	0.7	62.6	66.1
Interest on gross debt	19.1	18.9	19.2	17.6	14.7	108.6	198.1
Effect of interest rate swaps	13.2	13.8	12.5	10.2	8.1	7.2	65.0
Gross loan commitments	**33.0**	**157.9**	**123.4**	**203.5**	**217.5**	**464.4**	**1,199.7**
At 31 December 2011							
Bank loans	–	274.0	65.0	40.0	–	98.0	477.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
2.75% unsecured convertible bonds 2016	–	–	–	–	175.0	–	175.0
Loan notes	1.1	–	–	–	–	–	1.1
Unsecured loans	31.4	–	–	–	–	–	31.4
Total on maturity	32.5	274.0	65.0	40.0	175.0	273.0	859.5
Leasehold liabilities	0.7	0.7	0.7	0.7	0.7	60.3	63.8
Interest on gross debt	21.4	19.3	18.2	18.1	15.9	107.4	200.3
Effect of interest rate swaps	14.8	10.8	8.0	5.0	3.3	5.1	47.0
Gross loan commitments	69.4	304.8	91.9	63.8	194.9	445.8	1,170.6

Reconciliation to total debt:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
Group						
At 31 December 2012						
Maturing in:						
< 1 year	33.0	(19.1)	(13.2)	(0.7)	–	–
1 to 2 years	157.9	(18.9)	(13.8)	(0.7)	(0.3)	124.2
2 to 3 years	123.4	(19.2)	(12.5)	(0.7)	(1.2)	89.8
3 to 4 years	203.5	(17.6)	(10.2)	(0.7)	(10.0)	165.0
4 to 5 years	217.5	(14.7)	(8.1)	(0.7)	(3.8)	190.2
> 5 years	464.4	(108.6)	(7.2)	(53.7)	15.1	310.0
	1,199.7	**(198.1)**	**(65.0)**	**(57.2)**	**(0.2)**	**879.2**
At 31 December 2011						
Maturing in:						
< 1 year	69.4	(21.4)	(14.8)	(0.7)	–	32.5
1 to 2 years	304.8	(19.3)	(10.8)	(0.7)	(0.3)	273.7
2 to 3 years	91.9	(18.2)	(8.0)	(0.7)	(0.6)	64.4
3 to 4 years	63.8	(18.1)	(5.0)	(0.7)	(1.4)	38.6
4 to 5 years	194.9	(15.9)	(3.3)	(0.7)	(12.6)	162.4
> 5 years	445.8	(107.4)	(5.1)	(52.9)	16.0	296.4
	1,170.6	(200.3)	(47.0)	(56.4)	1.1	868.0

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2012							
Bank loans	–	124.5	91.0	–	194.0	–	409.5
Long-term intercompany loan	–	–	–	175.0	–	–	175.0
3.99% secured loan	–	–	–	–	–	83.0	83.0
Total on maturity	–	124.5	91.0	175.0	194.0	83.0	667.5
Interest on debt	7.5	7.4	7.5	5.9	2.9	17.0	48.2
Effect of interest rate swaps	12.4	13.0	11.7	9.5	7.5	6.7	60.8
Gross loan commitments	**19.9**	**144.9**	**110.2**	**190.4**	**204.4**	**106.7**	**776.5**
At 31 December 2011							
Bank loans	–	26.0	65.0	40.0	–	70.0	201.0
Long-term intercompany loan	–	–	–	–	175.0	–	175.0
Loan notes	1.1	–	–	–	–	–	1.1
Unsecured loans	31.4	–	–	–	–	–	31.4
Total on maturity	32.5	26.0	65.0	40.0	175.0	70.0	408.5
Interest on debt	7.1	7.0	6.5	6.2	4.0	1.6	32.4
Effect of interest rate swaps	7.0	6.9	5.5	3.5	2.6	2.1	27.6
Gross loan commitments	46.6	39.9	77.0	49.7	181.6	73.7	468.5

Reconciliation to total debt:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
Company						
At 31 December 2012						
Maturing in:						
< 1 year	19.9	(7.5)	(12.4)	–	–	–
1 to 2 years	144.9	(7.4)	(13.0)	–	(0.3)	124.2
2 to 3 years	110.2	(7.5)	(11.7)	–	(1.2)	89.8
3 to 4 years	190.4	(5.9)	(9.5)	–	(10.0)	165.0
4 to 5 years	204.4	(2.9)	(7.5)	–	(3.8)	190.2
> 5 years	106.7	(17.0)	(6.7)	–	(1.3)	81.7
	776.5	**(48.2)**	**(60.8)**	**–**	**(16.6)**	**650.9**
At 31 December 2011						
Maturing in:						
< 1 year	46.6	(7.1)	(7.0)	–	–	32.5
1 to 2 years	39.9	(7.0)	(6.9)	–	(0.1)	25.9
2 to 3 years	77.0	(6.5)	(5.5)	–	(0.6)	64.4
3 to 4 years	49.7	(6.2)	(3.5)	–	(1.4)	38.6
4 to 5 years	181.6	(4.0)	(2.6)	–	(12.9)	162.1
> 5 years	73.7	(1.6)	(2.1)	–	(1.2)	68.8
	468.5	(32.4)	(27.6)	–	(16.2)	392.3

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2012	**2.5**	**0.5**	**134.0**	**–**	**196.0**	**–**	**333.0**
At 31 December 2011	10.0	201.0	60.0	185.0	–	20.0	476.0
Company							
At 31 December 2012	**2.5**	**0.5**	**134.0**	**–**	**196.0**	**–**	**333.0**
At 31 December 2011	10.0	74.0	60.0	185.0	–	20.0	349.0

27 Borrowings and derivative financial instruments (continued)

Fixed interest rate and hedged debt

At 31 December 2012 and 2011, the Group's fixed rate debt included the secured bonds 2026 and the unsecured convertible bonds 2016, together with the instruments used to hedge its floating rate debt. Additionally, at 31 December 2012, it also comprised a secured loan expiring in 2024 which was issued during the year. At 31 December 2012 and 31 December 2011, the Company's fixed rate debt comprised the instruments used to hedge its floating rate debt and the long-term intercompany loan.

Secured Bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the Secured Bonds 2026 were included at fair value less issue costs. This difference between fair value and principal value is being amortised through the income statement. The fair value shown in note 28 was determined by the ask-price of £122.28 per £100 as at 31 December 2012 (2011: £122.50 per £100). The carrying value at 31 December 2012 was £191.4m (2011: £192.2m).

Unsecured Bonds 2016

In June 2011 the Group issued a convertible bond. The unsecured instrument pays a coupon of 2.75% until July 2016. In accordance with IFRS, the equity and debt components of the bond are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond. As a result, £165.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9.6m, which represents the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is amortised through the income statement from the date of issue. Issue costs of £4.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bond. The issue costs apportioned to equity of £0.2m are not amortised. The fair value shown in note 28 was determined by the ask-price of £113.03 per £100 as at 31 December 2012 (2011: £99.20 per £100). The carrying value at 31 December 2012 was £165.0m (2011: £162.4m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(9.6)
Debt component on issue	165.4
Unamortised issue costs	(3.2)
Amortisation of fair value adjustment	2.8
Carrying amount included in total debt	165.0

Secured fixed rate loan

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value shown in note 28 was determined by comparing the discounted future cash flows using the contracted yield with those of a prevailing market gilt. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2012 was £81.7m (2011: £nil).

Hedged debt

The hedged debt consists of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2012 for the period to the contracted expiry dates.

During the year, the Group entered into a £65m forward starting interest rate swap effective from 28 March 2013. This swap is not included in the 31 December 2012 figures above, but the financial impact from the effective date onwards is included in the relevant tables in this note and note 28.

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2012						
Interest rate swaps	368.0	3.600	5.76	340.0	3.606	5.72
At 31 December 2011						
Interest rate swaps	493.0	4.055	4.97	265.0	3.686	5.69

Interest rate exposure

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
Group						
At 31 December 2012						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	64.2	368.0	–	432.2	4.77	3.14
6.5% secured bonds 2026[1]	–	–	191.4	191.4	6.50	13.22
2.75% unsecured convertible bonds 2016[1]	–	–	165.0	165.0	3.99	3.54
3.99% secured loan	–	–	81.7	81.7	3.99	11.81
	64.2	368.0	438.1	870.3	4.88	6.07
At 31 December 2011						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	–	473.5	–	473.5	4.87	2.61
6.5% secured bonds 2026[1]	–	–	192.2	192.2	6.50	14.22
2.75% unsecured convertible bonds 2016[1]	–	–	162.4	162.4	3.99	4.54
Loan notes	1.1	–	–	1.1	0.25	0.09
Unsecured loans	11.9	19.5	–	31.4	1.86	0.47
	13.0	493.0	354.6	860.6	4.91	5.29
Company						
At 31 December 2012						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	64.2	340.0	–	404.2	4.79	2.98
Intercompany loan	–	–	165.0	165.0	3.99	3.54
3.99% secured loan	–	–	81.7	81.7	3.99	11.81
	64.2	340.0	246.7	650.9	4.48	4.22
At 31 December 2011						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	–	197.7	–	197.7	5.91	3.76
Intercompany loan	–	–	162.1	162.1	3.99	4.54
Loan notes	1.1	–	–	1.1	0.25	0.09
Unsecured loans	11.9	19.5	–	31.4	1.86	0.47
	13.0	217.2	162.1	392.3	4.76	3.83

[1] The weighted average costs of debt for the secured bonds and the unsecured convertible bonds are based on the nominal amounts of £175m.

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

	2012 Receivable £m	**2012 Payable £m**	2011 Receivable £m	2011 Payable £m
Group				
Maturing in:				
< 1 year	**2.3**	**(15.5)**	5.2	(20.0)
1 to 2 years	**2.7**	**(16.6)**	4.3	(15.1)
2 to 3 years	**3.8**	**(16.3)**	4.4	(12.2)
3 to 4 years	**4.8**	**(14.9)**	4.0	(9.0)
4 to 5 years	**6.0**	**(14.1)**	4.9	(8.3)
> 5 years	**10.9**	**(18.1)**	18.4	(23.6)
Gross contractual cash flows	**30.5**	**(95.5)**	41.2	(88.2)
Company				
Maturing in:				
< 1 year	**2.1**	**(14.5)**	2.8	(9.8)
1 to 2 years	**2.6**	**(15.6)**	2.9	(9.8)
2 to 3 years	**3.6**	**(15.3)**	3.0	(8.5)
3 to 4 years	**4.4**	**(13.9)**	3.0	(6.5)
4 to 5 years	**5.6**	**(13.1)**	3.7	(6.3)
> 5 years	**10.2**	**(16.9)**	10.3	(12.4)
Gross contractual cash flows	**28.5**	**(89.3)**	25.7	(53.3)

28 Financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
Group					
Financial assets					
Cash and cash equivalents	–	4.4	–	4.4	4.4
Other assets – current[1]	–	30.1	–	30.1	30.1
	–	34.5	–	34.5	34.5
Financial liabilities					
Borrowings due after one year	–	–	(441.1)	(441.1)	(446.4)
6.5% secured bonds 2026	–	–	(191.4)	(191.4)	(214.0)
2.75% unsecured convertible bonds 2016	–	–	(165.0)	(165.0)	(188.2)
3.99% secured loan	–	–	(81.7)	(81.7)	(82.0)
Derivative financial instruments	(54.3)	–	–	(54.3)	(54.3)
Other liabilities – current[2]	–	–	(44.2)	(44.2)	(44.2)
	(54.3)	–	(923.4)	(977.7)	(1,029.1)
At 31 December 2012	**(54.3)**	**34.5**	**(923.4)**	**(943.2)**	**(994.6)**
Financial assets					
Cash and cash equivalents	–	3.5	–	3.5	3.5
Other assets – current[1]	–	26.3	–	26.3	26.3
	–	29.8	–	29.8	29.8
Financial liabilities					
Borrowings due within one year	–	–	(32.5)	(32.5)	(32.5)
Borrowings due after one year	–	–	(480.9)	(480.9)	(484.4)
6.5% Secured Bonds 2026	–	–	(192.2)	(192.2)	(214.4)
2.75% unsecured convertible bonds 2016	–	–	(162.4)	(162.4)	(164.0)
Derivative financial instruments	(51.9)	–	–	(51.9)	(51.9)
Other liabilities – current[2]	–	–	(35.1)	(35.1)	(35.1)
	(51.9)	–	(903.1)	(955.0)	(982.3)
At 31 December 2011	(51.9)	29.8	(903.1)	(925.2)	(952.5)
Company					
Financial assets					
Cash and cash equivalents	–	1.2	–	1.2	1.2
Other assets – current[1]	–	791.5	–	791.5	791.5
	–	792.7	–	792.7	792.7
Financial liabilities					
Borrowings due after one year	–	–	(404.2)	(404.2)	(409.5)
Long-term intercompany loan	–	–	(165.0)	(165.0)	(188.2)
3.99% secured loan	–	–	(81.7)	(81.7)	(82.0)
Derivative financial instruments	(50.2)	–	–	(50.2)	(50.2)
Other liabilities – current[2]	–	(89.9)	(17.7)	(107.6)	(107.6)
	(50.2)	(89.9)	(668.6)	(808.7)	(837.5)
At 31 December 2012	**(50.2)**	**702.8**	**(668.6)**	**(16.0)**	**(44.8)**
Financial assets					
Other assets – current[1]	–	545.2	–	545.2	545.2
	–	545.2	–	545.2	545.2
Financial liabilities					
Borrowings due within one year	–	–	(32.5)	(32.5)	(32.5)
Borrowings due after one year	–	–	(197.7)	(197.7)	(201.0)
Long-term intercompany loan	–	–	(162.1)	(162.1)	(164.0)
Derivative financial instruments	(30.7)	–	–	(30.7)	(30.7)
Other liabilities – current[2]	–	(150.2)	(14.2)	(164.4)	(164.4)
	(30.7)	(150.2)	(406.5)	(587.4)	(592.6)
At 31 December 2011	(30.7)	395.0	(406.5)	(42.2)	(47.4)

[1] Other assets includes all amounts shown as trade and other receivables in note 23 except prepayments and sales and social security taxes of £20.7m (2011: £18.7m) for the Group and £0.9m (2011: £1.2m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] Other liabilities for the Group include all amounts shown as trade and other payables in note 25 except deferred income of £36.3m (2011: £35.8m) and £0.1m (2011: £nil) for the Company. All amounts are non-interest bearing and are due within one year.

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

	Group		Company	
	2012 **£m**	2011 £m	**2012** **£m**	2011 £m
Net financial assets and liabilities	**(943.2)**	(925.2)	**(16.0)**	(42.2)
Other assets – current	**(30.1)**	(26.3)	**(791.5)**	(545.2)
Other liabilities – current	**44.2**	35.1	**107.6**	164.4
Cash and cash equivalents	**(4.4)**	(3.5)	**(1.2)**	–
Total net borrowings and derivatives	**(933.5)**	(919.9)	**(701.1)**	(423.0)

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 2012 or 2011.

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 30 to 33 and page 84.

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

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

Principal financial instruments

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

General objectives, policies and processes

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

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

Credit risk

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

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time. The quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 23.

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

Market risk

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

Fair value and cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2012, the proportion of fixed debt held by the Group was above this range at 92%. During both 2012 and 2011, the Group's borrowings at variable rate were denominated in sterling.

28 Financial assets and liabilities (continued)

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 £0.3m (2011: £0.1m) or a decrease of £0.3m (2011: £0.1m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 27). The Group generally raises long-term borrowings at floating rates and swaps them into fixed.

Liquidity risk

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

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

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

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

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 above average long-term returns for shareholders; and
- to provide an above average annualised total return to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2012, the Group's strategy, which was unchanged from 2011, was to maintain the NAV gearing below 80% in normal circumstances. The three gearing ratios are defined on page 150 and are derived below.

NAV gearing

	2012 £m	2011 £m
Net debt	**874.8**	864.5
Net assets	**1,918.0**	1,714.5
NAV gearing	**45.6%**	50.4%

Loan-to-value ratio

	2012 £m	2011 £m
Net debt	**874.8**	864.5
Fair value adjustment of secured bonds	**(17.8)**	(18.6)
Unamortised issue and arrangement costs	**11.2**	7.9
Leasehold liabilities	**(8.9)**	(7.4)
Drawn facilities	**859.3**	846.4
Fair value of property portfolio	**2,859.6**	2,646.5
Loan-to-value ratio	**30.0%**	32.0%

Interest cover ratio

	2012 £m	2011 £m
Gross property income	**124.8**	125.5
Surrender premiums	**(0.3)**	(2.4)
Ground rent	**(0.9)**	(0.8)
Gross rental income net of ground rent	**123.6**	122.3
Net finance costs	**40.8**	43.2
Foreign exchange gain	**0.3**	–
Net pension return	**0.1**	0.2
Finance lease costs	**(0.4)**	(0.5)
Amortisation of fair value adjustment to secured bonds	**0.8**	0.8
Amortisation of issue and arrangement costs	**(3.1)**	(2.0)
Non-utilisation fees	**(3.3)**	(1.9)
Net interest payable	**35.2**	39.8
Interest cover ratio	**351%**	307%

29 Equity

The authorised share capital was £6.04m at 1 January 2011, 31 December 2011 and 31 December 2012. The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 89 to 99 and note 14. The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2011	101,200,297
Issued as a result of scrip dividends	296,225
Issued as a result of awards vesting under the Group's Performance Share Plan	144,460
At 31 December 2011	101,640,982
Issued as a result of scrip dividends	109,416
Issued as a result of awards vesting under the Group's Performance Share Plan	204,508
Issued as a result of the exercise of share options[1]	59,325
At 31 December 2012	**102,014,231**

[1] Proceeds from these issues were £0.4m (2011: £nil).

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

Other reserves

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Merger reserve	**910.5**	910.5	**668.3**	596.7
Foreign exchange translation reserve	**–**	4.2	**–**	–
Revaluation reserve	**9.9**	8.7	**–**	–
Equity portion of the convertible bonds	**9.4**	9.4	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**9.4**	–
Fair value of equity instruments under share-based payments	**4.2**	3.8	**4.2**	3.8
	934.0	936.6	**681.9**	600.5

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. Profit for the year includes a profit of £128.5m (2011: £90.3m) which has been dealt with in the accounts of the Company.

32 Dividends

		Dividend per share				
	Payment date	PID p	Non-PID p	Total p	**2012 £m**	2011 £m
Current year						
2012 final dividend	14 June 2013	18.75	5.00	23.75	**–**	–
2012 interim dividend	1 November 2012	9.95	–	9.95	**10.2**	–
Distribution of current year profit		28.70	5.00	33.70	**10.2**	–
Prior year						
2011 final dividend	15 June 2012	18.10	3.80	21.90	**22.3**	–
2011 interim dividend	4 November 2011	9.45	–	9.45	**–**	9.6
Distribution of prior year profit		27.55	3.80	31.35	**22.3**	9.6
2010 final dividend	16 June 2011	20.25	–	20.25	**–**	20.5
Dividends as reported in the Group statement of changes in equity					**32.5**	30.1
2012 interim dividend withholding tax	14 January 2013				**(1.5)**	–
2012 interim scrip dividend	1 November 2012				**(0.7)**	–
2011 final scrip dividend	15 June 2012				**(1.3)**	–
2011 interim dividend withholding tax	27 January 2012				**1.4**	(1.4)
2011 interim scrip dividend	4 November 2011				**–**	(2.3)
2010 final scrip dividend	16 June 2011				**–**	(2.4)
2010 interim dividend withholding tax	14 January 2011				**–**	1.4
Dividends paid as reported in the Group cash flow statement					**30.4**	25.4

33 Cash and cash equivalents

	Group 2012 £m	2011 £m	**Company 2012 £m**	2011 £m
Short-term deposits	**4.4**	3.5	**1.2**	–

34 Total return

	2012 %	2011 %
Total return	**12.7**	17.4

35 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2012 and not provided for in the accounts amounted to £78.4m (2011: £17.0m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties. At 31 December 2012 and 31 December 2011, there were no obligations for the purchase, repair or maintenance of investment properties.

36 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31 December 2012 and 31 December 2011 there was no liability that could arise for the Company from the cross guarantees.

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.

37 Post balance sheet events

In February 2013, the Group exchanged contracts to sell two freehold properties for a total of £16.5m after costs. These transactions will realise neither a profit nor a loss on disposal.

38 Leases

	2012 £m	2011 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**124.1**	117.8
later than one year and not later than five years	**438.9**	333.7
later than five years	**809.4**	839.8
	1,372.4	1,291.3

	2012 **£m**	2011 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**0.7**	0.7
later than one year and not later than five years	**2.8**	2.8
later than five years	**62.6**	60.3
	66.1	63.8
Future contingent rent payable on finance leases	**(17.6)**	(23.3)
Future finance charges on finance leases	**(39.6)**	(33.1)
Present value of finance lease liabilities	**8.9**	7.4
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**0.5**	0.1
later than five years	**8.4**	7.3
	8.9	7.4

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

	2012 **£m**	2011 £m
Finance charge	**0.4**	0.5
Contingent rent	**0.5**	0.3
Total	**0.9**	0.8

The Group has over 850 leases granted to its tenants. These vary depending 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 2012 was 13.5 years (2011: 10.0 years). Of these leases, on a weighted average basis, 94% (2011: 74%) included a rent free or half rent period.

39 Principal operating companies

The principal operating companies within the Group at 31 December 2012 are:

	Ownership	Principal activity
Subsidiaries		
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Caledonian Properties Limited	100%	Property trading
Derwent London Capital (Jersey) Limited[1]	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited[1]	100%	Holding company

[1] Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

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

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

All of the above companies are registered and operate in England and Wales, except for Euro Mall Sterboholy a.s., which is registered in the Czech Republic and Derwent London Capital (Jersey) Limited, which is registered in Jersey.

40 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 89 to 99 and note 12. Other related party transactions are as follows:

Group

Up until 1 October 2011, Messrs J.D. Burns and S.P. Silver were partners in The Pilcher Hershman Partnership (LLP), estate agents, when they resigned. After their resignation they held no further interest in the partnership. The partnership received fees at a commercial rate in respect of the letting, acquisition and disposal of certain properties owned by the Group of £0.5m in the nine months to 30 September 2011. Procedures had been established whereby the Audit Committee was able to verify that neither Messrs Burns nor Silver derived 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 £0.3m (2011: £0.2m). The Group also contributed £0.1m (2011: £0.1m) to LMS Capital plc's running costs.

In 2011, the Group paid fees at a commercial rate in respect of the disposal of certain properties of £0.1m to Hamilton Investment Properties Ltd, a company of which Mr S.P. Silver's son was a Director.

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

At 31 December 2012, included within other receivables in note 23 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £12.6m (2011: £10.2m). The majority of this amount represents advances to the Portman Estate, relating to proceeds received upon the disposal of jointly owned properties. This debt will be discharged by a distribution to shareholders.

Company

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

	Interest (payable)/receivable		Dividend received		Balance owed/(owing)	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Related party						
Derwent Central Cross Limited	**7.7**	6.9	**–**	–	**151.5**	146.8
Derwent Henry Wood Limited	**2.6**	2.3	**–**	–	**49.1**	49.0
Derwent London Grafton Limited	**1.0**	–	**–**	–	**37.7**	–
Derwent London Howland Limited	**3.4**	–	**–**	–	**128.1**	–
Derwent Valley Central Limited	**3.8**	4.3	**100.0**	–	**207.4**	143.2
Derwent Valley London Limited	**5.8**	5.0	**–**	–	**114.9**	108.5
Derwent Valley Property Developments Limited	**4.3**	3.3	**–**	–	**96.0**	92.5
Derwent Valley Property Investments Limited	**(3.9)**	(2.6)	**–**	–	**(77.5)**	(73.4)
Derwent London Page Street Limited	**0.1**	–	**–**	–	**6.7**	0.4
Derwent London Capital (Jersey) Limited[1]	**(6.5)**	(2.8)	**–**	–	**(164.9)**	(164.8)
Derwent Valley Railway Company[2]	**–**	–	**–**	–	**(0.2)**	(0.2)
London Merchant Securities Limited[3]	**(3.1)**	(4.4)	**–**	–	**(12.4)**	(69.8)
	15.2	12.0	**100.0**	–	**536.4**	232.2

[1] The payable balance at 31 December 2012 includes the long-term intercompany loan of £165.0m (2011: £162.1) included in note 27.

[2] Dormant company.

[3] Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the long-term loan from Derwent London Capital (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

41 Significant accounting policies

Basis of consolidation

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

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

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

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

Gross property income

Gross property income arises from two main sources:

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

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with SIC 15, Operating Leases – Incentives. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free or half rent periods or capital contributions in lieu of rent free periods and the effect of payments received from tenants on the grant of leases.

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

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

Other income

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

Borrowing costs

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

Expenses

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

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

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

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

Employee benefits

(i) Share-based remuneration
  (a) Equity-settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of options granted is calculated using a binomial lattice pricing model. Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.
  (b) Cash-settled – For cash-settled share-based payments, a liability is recognised based on the current fair value determined at each balance sheet date. The movement in the current fair value is taken to the Group income statement.

41 Significant accounting policies (continued)

Employee benefits (continued)

(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 Group statement of comprehensive income.

Business combinations

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

Investment property

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

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

(ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23, Borrowing Costs, interest that is directly attributable to such expenditure is capitalised using the Group's average cost of borrowings during each quarter.

(iii) Disposal – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received.

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

Property, plant and equipment

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

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

(iii) Other – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less the 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 recoverable amount. Any impairment is recognised immediately in the income statement.

Non-current assets held for sale

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

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

Financial assets

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

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

Financial liabilities

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

(ii) Non-convertible 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 bondholders is expensed in the year to which it relates.

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

(iv) 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.

(v) 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.

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

Deferred tax

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

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

Dividends

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

Foreign currency translation

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

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

PRINCIPAL PROPERTIES

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m^2
West End: Central (66%)				
Fitzrovia[1]/Euston (38%)				
1-2 Stephen Street & 18-30 Tottenham Court Road W1	100+	O/R/L	F	23,700
132-142 Hampstead Road NW1	25-50	O/I	F	20,200
80 Charlotte Street W1	75-100	O	F	18,600
8 Fitzroy Street W1	100+	O	F	13,700
Qube, 90 Whitfield Street W1	100+	O/R/Re	F	10,200
Holden House, 54-68 Oxford Street W1	75-100	O/R	F	8,400
Henry Wood House, 3-7 Langham Place W1	50-75	O/R/L	L	7,400
25 and 29 Berners Street W1	25-50	O	L	7,400
Middlesex House, 34-42 Cleveland Street W1	25-50	O	F	6,000
Network Building, 95-100 Tottenham Court Road W1	25-50	O/R	F	6,000
88-94 Tottenham Court Road W1	0-25	O/R	F	4,900
Charlotte Building, 17 Gresse Street W1	25-50	O	L	4,400
80-85 Tottenham Court Road W1	25-50	O/R	F	4,100
60 Whitfield Street W1	25-50	O	F	3,400
75 Wells Street W1	0-25	O/R	L	3,200
43 and 45-51 Whitfield Street W1	0-25	O	F	2,900
53-65 Whitfield Street W1	0-25	O	F	2,800
120-134 Tottenham Court Road W1[2]	25-50	R/L	F	2,600
7-8, 9 and 10 Rathbone Place W1	0-25	O/R/Re	L	2,100
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	1,900
Suffolk House, 1-8 Whitfield Place W1	0-25	O	F	1,400
76-78 Charlotte Street W1	0-25	O	F	1,000
73 Charlotte Street W1	0-25	O	F	1,000
Victoria (13%)				
Horseferry House, Horseferry Road SW1	100+	O	F	15,100
Greencoat and Gordon House, Francis Street SW1	75-100	O	F	11,900
1 Page Street SW1	50-75	O	F	11,800[3]
Premier House, 10 Greycoat Place SW1	25-50	O	F	5,800
Francis House, 11 Francis Street SW1	25-50	O	F	5,300
6-8 Greencoat Place SW1	0-25	O	F	3,100
Baker Street/Marylebone (5%)				
19-35 Baker Street W1	50-75	O/R	L	6,700
88-110 George Street W1	25-50	O/R/Re	L	4,200
30 Gloucester Place W1	0-25	O/Re	L	2,200
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	2,100
17-39 George Street W1	0-25	O/R/Re	L	2,000
Soho/Covent Garden (4%)				
Bush House, South West Wing, Strand WC2	0-25	O	F	10,000
Tower House, 10 Southampton Street WC2	25-50	O/R/Re	F	4,900
Davidson Building, 5 Southampton Street WC2	25-50	O/R	F	3,900
Jaeger House, 57 Broadwick Street W1	0-25	O/R	F	2,300
Belgravia (3%)				
1-5 Grosvenor Place SW1	75-100	O/R/Re	L	15,600[4]
Mayfair (2%)				
25 Savile Row W1	50-75	O/R	F	3,900
Paddington (1%)				
55-65 North Wharf Road W2	25-50	O	L	7,200
Queens, 96-98 Bishop's Bridge Road W2	0-25	Re	F	2,000[3]

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m^2
West End: Borders (10%)				
Islington/Camden (9%)				
Angel Building, 407 St. John Street EC1	100+	O/R	F	24,300
4 & 10 Pentonville Road N1	0-25	O	F	5,100
Balmoral Grove Buildings, N7 and 1-9 Market Road N7	0-25	O/I	F	4,600
Suncourt House, 18-26 Essex Road N1	0-25	O/R	F	2,500
35 & 37 Kentish Town Road NW1	0-25	O	F	2,300
423-425 Caledonian Road N7	0-25	O	F	1,700
Ladbroke Grove (1%)				
Portobello Dock and Kensal House W10	0-25	O/R	F	4,800
136-142 Bramley Road W10	0-25	O	F	2,900
City: Borders (21%)				
Clerkenwell (6%)				
88 Rosebery Avenue EC1	25-50	O	F	9,600
Morelands Buildings, 5-27 Old Street EC1	25-50	O/R	L	8,400
Buckley Building, 49 Clerkenwell Green EC1	25-50	O	F	7,900[3]
Turnmill, 63 Clerkenwell Road EC1	0-25	O/R	F	6,500[3]
5-8 Hardwick Street and 161 Rosebery Avenue EC1	0-25	O	F	3,300
151 Rosebery Avenue EC1	0-25	O	F	2,200
3-4 Hardwick Street EC1	0-25	O	F	1,100
Old Street (5%)				
1 Oliver's Yard EC2	75-100	O/R	F	17,300
White Collar Factory, City Road EC1:	25-50	O/R	F	11,500
70-74 City Road				
Sophia House, 76 City Road				
Transworld House, 82-100 City Road				
36-37 Featherstone Street				
13-15 Mallow Street				
210 Old Street				
Monmouth House, 58-64 City Road EC1	0-25	O	F	3,900
186 City Road EC1	0-25	O	F	3,600
Holborn (5%)				
Johnson Building, 77 Hatton Garden EC1	75-100	O	F	14,600
40 Chancery Lane WC2	0-25	O	L	9,300[3]
6-7 St. Cross Street EC1	0-25	O	F	3,100
Shoreditch/Whitechapel (5%)				
Tea Building, Shoreditch High Street E1	75-100	O/R/L	F	24,100
9 and 16 Prescot Street E1	0-25	O/Re	F	10,300
Provincial (3%)				
Scotland (3%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-75	R	F	29,100
Land, Bishopbriggs, Glasgow	25-50	-	F	5,500 acres

[1] Includes North of Oxford Street
[2] Includes a 324-room hotel
[3] Proposed scheme area
[4] Total floor area
( ) Percentages weighted by valuation

LIST OF DEFINITIONS

Building Management System (BMS)
A BMS is a computer-based control system installed in buildings that controls and monitors the buildings' mechanical and electrical equipment such as ventilation, lighting and power systems.

Building Research Establishment Environmental Assessment Method (BREEAM)
BREEAM is an environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

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.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)
This is the UK Government's mandatory scheme for carbon emissions reporting and allowance purchasing.

Diluted figures
Reported results adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bond.

Earnings/earnings per share (EPS)
Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

Estimated rental value (ERV)
This is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

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. EPRA published its latest Best Practices Recommendations in August 2011 (www.epra.com/media/EPRA_BPR_2011.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted.
In addition, in accordance with EPRA guidelines, Group specific adjustments have been made to adjusted profit and adjusted earnings per share to arrive at the underlying position (see below).

- Adjusted earnings per share
  Recurring earnings from core operational activities.
- Adjusted net asset value per share
  NAV adjusted to exclude certain items not expected to crystallise in a long-term investment property business model.
- Triple net asset value per share
  EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations.
- Net initial yield (NIY)
  Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.
- "Topped-up" net initial yield
  This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).
- Vacancy rate
  Estimated rental value (ERV) of immediately available space divided by ERV of the EPRA portfolio.
- Like-for-like rental income growth
  The growth in rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, surrender premiums and properties acquired or disposed of in either period.

Fair value movement
An accounting adjustment to change the book value of an asset or liability to its market value.

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.

Headroom
This is the amounts left to draw under the Group's loan facilities, i.e. the total loan facilities less amounts already drawn.

Interest cover ratio
Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable and capitalised interest.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating-rate debt to fixed rates.

Investment Property Databank Limited (IPD)
IPD is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the All UK Property Index.

Key Performance Indicators (KPIs)
Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the Annual Report.

Lease incentives
Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free or half rent period, stepped rents, or a cash contribution to fit-out or similar costs.

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

Mark-to-market
The difference between the book value of an asset or liability and its market value.

NAV gearing
Net debt divided by net assets.

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.

Net debt
Borrowings plus bank overdraft less cash and cash equivalents.

Non-PID
Dividends from profits of the Group's taxable residual business.

Property income distribution (PID)
Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

Real Estate Investment Trust (REIT)
The Government established REIT status in the UK in 2007 to remove tax inequalities between different real estate investors and aimed to improve overall investor access to real estate. REITs are companies which are exempt from corporate taxation on profits from property rental income and capital gains on the sale of investment properties.

REITs must distribute 90% of UK rental income in the form of property income dividends (PIDs). This makes the tax implications of investing in REITs equivalent to investing directly in property. REITs are also required to meet certain conditions including the proportion of total profits and assets accounted for by their property rental businesses. They remain liable to corporation tax on non-property investment businesses e.g. management fees and interest receivable.

The UK has had a tax exempt real estate regime since 1 January 2007 and Derwent London has been a REIT since 1 July 2007.

Rent reviews
Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents have increased) at the review date.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)
The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

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

Scrip dividend
Derwent London offers its shareholders the opportunity to receive dividends in the form of shares instead of cash. This is known as a scrip dividend.

Ska Rating
The Ska Rating is an environmental impact assessment method designed specifically for non-domestic fit out projects. Performance is measured across a series of ratings, Bronze, Silver and Gold.

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

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

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

Underlying portfolio
Properties that have been held for the whole of the year, i.e. excluding any acquisitions or disposals made during the year.

Underlying profit/earnings per share
EPRA profit or earnings per share adjusted for items that are excluded to show the underlying trend. For 2012, these adjustments are for rates credits and the foreign exchange movement.

Underlying valuation increase
The valuation increase on the underlying portfolio.

Waste Resources Action Programme (WRAP)
WRAP is a not-for-profit organisation that assists organisations to become more efficient in the use of natural resources.

Yield shift
A movement in the yield of a property asset, or like-for-like portfolio, over a given period. Yield compression is a commonly-used term for a reduction in yields.

FIVE-YEAR SUMMARY

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Gross property income	**124.8**	125.5	119.4	123.8	119.0
Net property income	**117.0**	117.7	113.0	114.8	95.5
EPRA profit before tax	**52.5**	52.3	55.2	61.8	22.2
Profit/(loss) on disposal of properties and investments	**6.9**	36.1	0.9	(16.6)	1.2
Profit/(loss) before tax	**228.1**	233.0	352.8	(34.9)	(606.5)
Net assets	**1,918.0**	1,714.5	1,494.7	1,163.9	1,215.0
Property portfolio at fair value	**2,859.6**	2,646.5	2,426.1	1,918.4	2,108.0
Revaluation surplus/(deficit)	**175.3**	172.1	301.7	(81.1)	(602.1)
Net debt	**874.8**	864.5	887.8	720.8	865.4
Cash flow[1]	**1.9**	18.4	(171.6)	139.5	(83.7)
Net cash inflow from operating activities	**51.8**	47.2	46.5	66.4	38.3
Acquisitions	**99.8**	91.6	148.0	10.2	31.9
Capital expenditure on properties	**78.6**	42.6	49.5	94.6	72.9
Disposals	**161.0**	131.5	8.5	195.5	72.6
EPRA earnings per share (p)	**50.36**	51.59	52.89	57.14	21.74
Underlying earnings per share (p)	**49.77**	50.01	51.40	50.79	21.24
Dividend per share					
IFRS (p)	**31.86**	29.60	27.60	24.50	23.15
Distribution of year earnings (p)	**33.70**	31.35	29.00	27.00	24.50
Net asset value per share (p)	**1,824**	1,636	1,432	1,117	1,170
EPRA net asset value per share (p) – undiluted	**1,896**	1,712	1,484	1,168	1,226
EPRA net asset value per share (p) – diluted	**1,886**	1,701	1,474	1,161	1,222
EPRA triple net asset value per share (p) – diluted	**1,775**	1,607	1,425	1,126	1,206
EPRA total return (%)	**12.7**	17.4	29.3	(2.9)	(30.6)
Gearing					
NAV (%)	**45.6**	50.4	59.4	61.9	71.2
Loan-to-value ratio (%)	**30.0**	32.0	35.7	36.4	39.7
Interest cover ratio (%)	**351**	307	328	330	247

[1] Cashflow is the net cash from operating and investing activities less the dividends paid.

A list of definitions is provided on pages 150 and 151.

FINANCIAL CALENDAR

Issue of first quarter 2013 interim management statement	10 May 2013
Annual General Meeting	17 May 2013
Payment of 2012 final dividend	14 June 2013
Announcement of 2013 interim results	August 2013
Issue of third quarter 2013 interim management statement	November 2013
Payment of 2013 interim dividend	November 2013
Announcement of 2013 results	March 2014

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