







# Financial highlights

	Half year to 30.06.07	Half year to 30.06.06	Year to 31.12.06	Increase <sup>1</sup> %
Adjusted net property income <sup>2</sup>	<b>£46.1m</b>	£23.6m	£46.4m	95.3
Adjusted profit before taxation <sup>3</sup>	<b>£12.3m</b>	£9.7m	£16.4m	26.8
(Loss)/profit before taxation	<b>£(20.3)m</b>	£122.6m	£242.8m	(116.6)
Adjusted earnings per share <sup>3</sup>	<b>10.95p</b>	23.56p	24.83p	(53.5)
Earnings per share	<b>220.75p</b>	172.42p	340.13p	28.0
Dividend per share				
Distribution of period's earnings	<b>7.500p</b>	4.225p	14.75p	77.5
IFRS	<b>10.525p</b>	9.725p	13.95p	8.2
Adjusted net assets per share <sup>4</sup>	<b>1,931p</b>	1,540p	1,770p	12.5
Net assets per share	<b>1,922p</b>	1,295p	1,460p	38.2
Total return	<b>9.7%</b>	16.1%	33.6%	
Gearing				
Balance sheet	<b>49.1%</b>	47.1%	44.7%	
Profit and loss	<b>1.50</b>	2.07	1.85	

1 The percentage change is from half year to half year, other than net assets per share for which June 2007 is compared to the proforma balance sheet at 1st February 2007 shown on page 23.

2 Excludes development income.

3 Excludes the revaluation movement on investment properties and financial instruments, the profit on disposal of investments and investment properties and the goodwill impairment, and additionally, for earnings per share, the related tax effects, the REIT conversion charge and the release of deferred tax on REIT conversion.

4 June 2006 and December 2006 excludes the deferred tax on the revaluation surplus, the post tax fair value of derivative financial instruments and deferred tax in respect of capital allowances claimed. At 30th June 2007, the majority of the deferred tax on the revaluation surplus relates to a property which was disposed of shortly after the balance sheet date crystallising the tax at that date. Therefore, the deferred tax on this property has not been added back to arrive at the adjusted net assets. The remaining deferred tax on the revaluation surplus together with the fair value of derivative financial instruments and the secured bonds are excluded from adjusted net assets.

# Chairman's statement

Derwent London has made excellent progress since the formal completion of the acquisition of London Merchant Securities in February and I am pleased to announce an extremely strong set of results for the six months to 30th June 2007.

It has been a very active and challenging time for management with emphasis being placed on achieving a rapid and smooth integration, rationalising the combined portfolio, and converting to REIT status. You will see from my detailed comments that considerable progress has been made on all these fronts.

## Results overview

Adjusted net asset value per share, one of the principal measures of the group's performance, increased by 12.5% to £19.31 per share, against a proforma figure at 1st February (the date of the acquisition) of £17.17 per share. This result is calculated after charging the REIT conversion charge of £54.7 million. Excluding this, the increase would have been 15.7%.

The investment portfolio was valued at £2.8 billion and achieved a valuation surplus of £245.2 million, before the lease incentive adjustment of £2.0 million. The underlying valuation increase, excluding development properties, was £204.3 million with £29.0 million from yield compression and £175.3 million from rental growth and asset management. The revaluation of the development properties added £40.6 million as schemes progressed towards completion. The balancing surplus of £0.3 million came from the single acquisition made in the first half.

The overall valuation increase was 9.6%. The Central London portfolio, with a value of £2.53 billion, increased by 10.7%. Within this, the West End properties, valued at £1.96 billion and representing 70% of the investment portfolio, increased by 10.6%. Here, Belgravia and Victoria were particularly strong performers with growth of 29.0% and 15.1% respectively.

The balance of the Central London portfolio (£0.57 billion), which is almost exclusively located in the City borders, represented 20% of the investment portfolio and rose by 11.1%.

The remaining 10% of the investment portfolio, with a value of £0.29 billion, increased by 0.6%. This is located outside Central London and has been identified for disposal.

In addition, there was a revaluation surplus of £53.2 million on assets under construction, giving a total surplus of £298.4 million.

Adjusted profit before tax for the enlarged group, which only includes the recurring elements of profit, was £12.3 million. This profit incorporates five months of results of London Merchant Securities and compares with £9.7 million for Derwent Valley in the half year to 30th June 2006. The result under IFRS is a loss of £20.3 million against a profit of £122.6 million for the comparable period. There are a number of adjustments made to arrive at the IFRS result, the most significant of which this year relates to the charge of £297.3 million resulting from the impairment of goodwill. Adjustment has also been made for the £6.8 million development income from the Telstar project. These are in addition to the usual adjustments in respect of the net revaluation surplus, (£243.2 million), profit on disposal of investment properties and other investments, (£10.0 million), and the movement in the fair value of derivative financial instruments, (£6.7 million). Total return for the six month period was 9.7% compared to 16.1% for the six months to 30th June 2006.

## Dividend

As a result of the acquisition and conversion to a REIT, the board has reviewed the company's dividend policy. It concluded that the dividend would be based on the policies of the two companies prior to the acquisition, plus a substantial proportion of the tax on income saved through REIT conversion. However, as the group only converted on 1st July, the dividend for 2007 will reflect only six months tax saving. The board has declared an interim dividend of 7.5p per share. This represents an increase of 78% on the 4.225p per share paid at this stage last year. Further details concerning the dividend are given in note 15.

## Market review

The group's activities are focused in Central London which has continued to perform well. In the West End, against a background of limited supply, tenant demand has resulted in strong rental growth. These market conditions are ideally suited to Derwent London's primary focus on reversionary, high potential growth assets, and have enabled us to make a number of lettings in the first half at record levels for the properties.

With the recent upward movement in interest rates, it is likely that the days of yield compression across all sectors of the commercial property sector are drawing to a close. However, strong investor demand persists in our markets and for our assets, a fact clearly endorsed by the prices we have secured on sales completed since the half year.

Conversely, in these market conditions, value adding opportunities are rare and the only acquisition made in the first half was of a 3,200m<sup>2</sup> office building in Noho for £21 million. Since 30th June 2007, two further acquisitions have been made for a combined consideration of £104 million. One of the properties is located in Clerkenwell and the other in Euston, two of our targeted London 'villages'. These reversionary assets both offer future opportunities for value enhancement.



# Chairman's statement

During the first half, we incurred £31 million of capital expenditure on the group's pipeline of projects, with £20 million being spent at Horseferry House, 2–4 Fitzroy Street (Arup) and 90 Whitfield Street (Qube). The first two of these are already fully pre-let and marketing of the third is due to commence in the Autumn.

## Strategy

Following the acquisition, our two immediate objectives were to convert to a REIT and to reshape the portfolio in order to focus entirely on Central London. These are clearly linked, since one of the major benefits of REIT status is that the tax on the disposal of investment properties is extinguished, thereby allowing the tax-efficient disposal of non-core properties.

The group became a REIT on 1st July 2007, after an Extraordinary General Meeting on 26th June 2007. The resulting conversion charge, which was based on the value of the investment portfolio, is £54.7 million and was included in the first half tax charge.

With the change in status completed, our disposal programme increased momentum. Significant progress has been made to date with the completion of the disposal of £103 million of investment properties and £112 million of residential sites. In addition, contracts have been exchanged for the sale of a further £99 million of investment properties. The proceeds show a substantial gross uplift in value of £125 million from that included in the proforma balance sheet. Details of the disposals are given in the operating review.

The proceeds from both the above sales and the ongoing disposal programme will be recycled into our refurbishment and redevelopment programme and further additions to the portfolio.

With the integration of the businesses now complete, the enlarged management team is utilising its combined expertise to drive the group's core ongoing strategy – to own and manage a portfolio of Central London property that offers significant opportunities to enhance and extract value. To this end, we are rationalising the portfolio, focusing on larger projects and acquisitions, as well as taking early possession of certain properties which allow redevelopment schemes to be brought forward.

In the operating review, we have commented on our refurbishment, redevelopment and management activity.

## Financing

Following the acquisition, group net debt at 30th June 2007 has risen to £948 million, an increase of £598 million from the £350 million reported at the December year end. Most of the increase (£553 million) relates directly to the acquisition: the issue of loan notes as consideration (£32.5 million); cash consideration and expenses (£20 million) and the net debt within London Merchant Securities itself (£501 million, inclusive of £30 million arising from the fair value of the secured bonds upon acquisition). The June figure shows an increase of

£52 million from that shown in the post acquisition proforma balance sheet included on page 23. In addition to loan notes and cash, ordinary shares to the value of £913 million were issued as consideration to London Merchant Securities shareholders.

Outside of the acquisition of London Merchant Securities, other notable cash flows are due to property acquisitions and capital expenditure (£67 million) and disposals (£29 million). Balance sheet gearing at 49.1% shows only a modest increase from the last year end while profit and loss gearing has risen from the 2006 figure of 54% to 67% for the current half year. The latter reflects the higher operational gearing of London Merchant Securities. At the end of August, 62% of net debt, which had fallen as a result of the disposal programme to approximately £803 million, was either at fixed rates or hedged, mainly through the use of swaps. Despite rising interest rates, the current spot average weighted cost of debt was 6.3%.

While the fair value movement of the derivative instruments since acquisition is included in the results for the half year, that for the £175 million secured bonds is not required to be adjusted. The fair value adjustment of the secured bonds at 30th June 2007 was £13.2 million, compared with the £22.1 million on acquisition.

## The board

Since the half year, Nick Friedlos, who, prior to the acquisition, was London Merchant Securities' finance director, has left the board. Nick made a considerable contribution to the efficient integration of the two groups and to the conversion of Derwent London to a REIT and we would like to wish him success in his new endeavours.

## Prospects

After a very active and successful first half, your group is extremely well positioned to take further major steps in its chosen markets. Investor interest in acquiring Central London assets remains high and occupier demand continues to be robust. In such circumstances, the group's portfolio, which is balanced between properties providing recurring and reversionary income and those which provide a pipeline of redevelopment projects, is particularly well placed to deliver superior returns.

By applying management's design-led refurbishment and redevelopment skills and diligent asset management, we believe that shareholders will benefit as we continue to unlock the value in the enlarged portfolio. Consequently, in spite of the current uncertainties in the global financial markets, we look forward to the future with confidence.

R.A. Rayne  
11th September 2007

# Operating review

The merger of the businesses of Derwent Valley Holdings and London Merchant Securities was formally completed on 1st February 2007. The renamed group, Derwent London, is now the UK's 7th largest listed property company and, following its conversion to REIT status, the world's largest Central London focused REIT.

A key objective for the first half was the integration of the management of the two property portfolios. This process has been completed smoothly with all personnel now located at Savile Row. The outcome is an enlarged asset management team, focused on applying its experience and entrepreneurial skills to the merged portfolio. This has immediately generated many new ideas and opportunities to maximise the potential, both of the assets and their locations.

## Portfolio

The group owns and manages an investment portfolio of over £2.8 billion, of which £2.5 billion or 90% is located in Central London. There is a specific focus on the West End, making up 70% of the portfolio, and the areas bordering the City, which comprise 20% of the portfolio.

The balancing 10% comprises non-core, provincial properties which are subject to an orderly disposal programme. Progress on this is set out in the final section of the review.

Our strategy is to acquire and own a portfolio that has reversionary rents and scope to add value through refurbishment and redevelopment. In this regard, our Central London properties offer excellent potential for rental growth, being let at a low average level of £259 per m<sup>2</sup>, with the West End properties at £270 per m<sup>2</sup>. Furthermore, approximately 50% of the London portfolio is identified as having the opportunity, through development, to achieve significant gains in floor area and increase in value.

## Redevelopment and refurbishment

The portfolio contains a phased development pipeline of over 310,000m<sup>2</sup>. Of this, projects committed and under construction will provide in excess of 61,000m<sup>2</sup> of new space and deliver a rental income approaching £22.0 million per annum. This includes £11.3 million of pre-let income.

Projects under construction include:

- **Horseferry House, Victoria, SW1**  
A comprehensive refurbishment and remodelling of this building, which will cost £27 million, is progressing on schedule and will create 15,200m<sup>2</sup> of high quality, air conditioned, office space centred around a striking reception atrium. The property, which was pre-let last year to Burberry, the international fashion group, at a rent of £5.3 million per annum, will be completed early next year. The headline rent of £410 per m<sup>2</sup> will ensure that this asset is well positioned to deliver future rental and capital growth performance.
- **Arup Phase II & III, 2–4 Fitzroy Street, Fitzrovia, W1**  
Phase II of this 13,200m<sup>2</sup> development is well advanced, with the external envelope cladding system being installed, revealing an inspirational design. Completion of this phase is scheduled for later this year and phase III in 2009. The complex is pre-let to Arup, an international firm of engineers, on a 25 year lease at a current income of £2.7 million per annum, which will rise to £6.0 million per annum on completion of both phases. The latter equates to £450 per m<sup>2</sup>, with a rent review in 2011 and presents excellent future prospects for rental growth in a location where rents are approaching £645 per m<sup>2</sup>.
- **Qube, 90 Whitfield Street, Fitzrovia, W1**  
Along with the Arup project, the nearby Qube development is set to transform the heart of our Fitzrovia holdings (representing 21% of the investment portfolio) by providing 9,300m<sup>2</sup> of exciting, high quality office space. Due to be completed later this year, this will be one of the few new office buildings of this size and quality available in the West End. This building offers flexible space within a panelled glass cladding system and large floor plates of 1,700m<sup>2</sup> around a central atrium which incorporates the circulation core. In addition, 700m<sup>2</sup> of retail space has been created at street level to provide a new and vibrant profile for this section of Tottenham Court Road.
- **16–19 Gresse Street, Noho, W1**  
This 4,400m<sup>2</sup> office development offers an opportunity to improve the area and create an attractive environment through modern design solutions. Located close to the group's Holden House property, we expect strong interest from media and communication companies when this project is completed in early 2009.
- **Portobello Dock and Kensal House, Ladbroke Grove, W10**  
The transformation of these redundant buildings will provide 6,400m<sup>2</sup> of space in this mixed-use scheme. It includes 19 canal-side apartments, a blend of studio offices and a new air-conditioned office building. The residential units will be sold on completion later this year and the offices leased. This project demonstrates Derwent London's philosophy of creating value by regenerating an area through a thoughtful, contemporary scheme.

## Planning permissions and applications

We are advancing a number of key planning opportunities to deliver the next generation of schemes and development surpluses and are also actively appraising and evaluating other important holdings where we have identified the opportunity to increase floor areas substantially.

These include:

- **55–65 North Wharf Road, Paddington, W2**  
In June, a planning application was submitted for a landmark office development of 22,300m<sup>2</sup> and 100 residential units in a self-contained building. A striking office building of 15 storeys will incorporate the latest environmental design and technology and create a distinct new development that will complement and add to the evolution of Paddington Basin. In addition, the scheme has been deliberately positioned to open up the canal side to the public as part of a number of public realm improvements to the location. The quality of the development, which will replace an existing 7,800m<sup>2</sup> low rise 1960's building, will be a further endorsement to this now established West End office location.
- **The Angel Centre, 403 St John Street, Islington, EC1**  
This property is leased to BT until 2010. In March, we completed a restructure to gain control of this prominent 15,000m<sup>2</sup> building, whereby the £4.2 million per annum rent will continue to be paid by the tenant until expiry. We are now finalising comprehensive refurbishment proposals, and architectural studies have identified a number of opportunities which would allow us to extend the size of the building to 23,200m<sup>2</sup>, an increase of over 50%. A planning application is to be submitted before the end of the year, with anticipated delivery of the space by the end of 2009.
- **40–43 Chancery Lane, Holborn, WC2**  
A planning decision is expected later this year for a 9,600m<sup>2</sup> office development. This will be a much welcomed addition to this improving location where there is a shortage of new, grade A buildings, as evidenced by the rapid take-up of space in nearby schemes. The proposal includes a courtyard setting and an improved street frontage. This application is made in conjunction with the freeholder and includes their adjacent ownership. The earliest possible start of construction will be 2008.
- **City Road Estate, EC1**  
It was disappointing to have recently received a planning refusal for our 9,300m<sup>2</sup> office and 235 residential apartment scheme, despite having planning officer recommendation. However, the existing 9,300m<sup>2</sup> buildings, which produce £1.3 million of income per annum, offer other alternatives for substantial redevelopment and the design is being re-appraised to identify other exciting avenues for the scheme.

- **Wedge House, 30–40 Blackfriars Road, Southbank, SE1**  
Planning permission is in place for the redevelopment of this 1950's 3,600m<sup>2</sup> building to provide 8,200m<sup>2</sup> of offices. The detailed design is now being finalised and there is the opportunity to commence the development in 2008 when the occupational lease expires.
- **18–30 Leonard Street, EC2**  
A planning permission exists for 2,000m<sup>2</sup> of offices and 47 private residential apartments. Subject to the site not being required for planning use in connection with our proposals for the nearby City Road Estate, construction is expected to commence later this year.

## Lettings

Despite the enlarged size of the group's portfolio as a result of the merger, the amount of available vacant space is low after last year's record level of lettings, which included the pre-letting of two major schemes.

However, we have achieved a number of important transactions, which delivered strong rental growth and added value to the portfolio. In total, 12,500m<sup>2</sup> of lettings were completed in the first half producing a combined rental of £2.6 million per annum. As a result of this activity, available vacant space is only 13,600m<sup>2</sup>, or under 2% of the portfolio's total rental value. In addition to this, and excluding pre-let schemes, vacant space under development/refurbishment totals 33,000m<sup>2</sup> with a potential rental value of over £13 million per annum.

Principal achievements included:

- The final space of 1,030m<sup>2</sup> was let at the recently completed 13,900m<sup>2</sup> Johnson Building, Hatton Garden at a record level of rent for the building. The tenant is paying a headline rent of £460 per m<sup>2</sup>, rising to £480 per m<sup>2</sup> on first review which is 26% above our initial lettings last year of £380 per m<sup>2</sup>.
- Following refurbishment of 6–7 St Cross Street, 1,750m<sup>2</sup> was let in three transactions. At £375 per m<sup>2</sup>, these achieved rental levels 27% above those of £295 per m<sup>2</sup> anticipated at the outset of the project.

The strong letting market also enabled us to implement a number of active management opportunities, whereby leases were surrendered and the space subsequently re-let at improved levels. As an example, at Holden House, Noho, following a surrender, we let 630m<sup>2</sup> to H&M Hennes, the principal tenant in the building. The rent achieved was £511 per m<sup>2</sup>, a substantial increase of 36% over the £375 per m<sup>2</sup> passing rent. In addition, at 4 Grosvenor Place, Belgravia, a re-letting achieved £745 per m<sup>2</sup>, the highest rent achieved in this building. Both these lettings will provide the basis of rent review evidence to drive values forward at these major holdings.

## Acquisitions and disposals

Demand for Central London investments remains strong in an environment where there is buoyant economic activity, healthy tenant take-up and low vacancy rates. These conditions are delivering rental growth and make Central London property the most sought after property asset class in the UK. Consequently, value-adding acquisitions are difficult to find, whilst the market's strength provides an ideal opportunity for disposals.

Only one acquisition was made during the first half, that of Castle House, 75 Wells Street, W1 for £20.0 million, excluding costs. This prominent corner building in the Noho village comprises 3,200m<sup>2</sup> of multi-let space and offers refurbishment and lease management potential. The average passing rent is low at £255 per m<sup>2</sup>, providing an excellent base for future growth.

We continue to seek acquisitions, concentrating particularly on larger buildings which provide opportunities to apply our design-led skills to increase floor area and rents, in both our existing villages and new, improving locations in Central London. The following two acquisitions have been made since the half year:

- **Woodbridge House, 30 Aylesbury Street, Clerkenwell, EC1**  
This 7,000m<sup>2</sup> office building, located in the heart of Clerkenwell, was acquired for £46.3 million, excluding costs. It is let to Pinsent Masons, solicitors, at £2.45 million per annum on a lease expiring in 2015 with a rent review in 2010. The rent passing is £350 per m<sup>2</sup> and offers good reversionary growth prospects. In addition, there is the opportunity to create additional space and improve the building configuration.
- **132–142 Hampstead Road, Euston, NW1**  
This acquisition, for £52.5 million, excluding costs, comprises two substantial buildings providing 21,500m<sup>2</sup> of warehouse and office accommodation and a petrol filling station on a site of 1.85 acres. They are leased to three tenants, British Home Stores, University College Hospital and BP Oil, at a combined rent of £2.0 million per annum. There is an existing planning permission for a new office building of 19,700m<sup>2</sup> and 4,600m<sup>2</sup> of industrial space. We believe that we can considerably improve on this consent by increasing the amount of office accommodation and introducing residential units to the site. This is an improving location adjacent to the important Euston transport interchange, where there are comprehensive proposals to turn this into a core London office location.

Disposals from the investment portfolio in the first half totalled £19.6 million, with further sales held back pending REIT conversion. The principal sale was a residential site at 2–20 Winchester Road, Swiss Cottage, NW3 for £18.25 million, before costs. This figure was 82% above the 31st January 2007 value, but the nature of the asset fell outside the opportunity for REIT tax savings. Other sales included the Swinton Shopping Centre, Manchester in June for £36.8 million. This was held in a joint venture and sold at approximately book value.

Since the half year, disposal activity has dramatically increased with a further £314 million of disposals completed or contracted. These assets produced a total rental income of £5.4 million per annum, representing a gross disposal yield of 1.7%. Combined, the gross proceeds were 66% or £125 million above the proforma book values of £189 million.

These properties were all identified as non-core assets at the time of the acquisition and we have been able to capitalise successfully on the strength of the market and the benefit of our REIT status.

The principal London disposals were:

- **Greenwich Reach, Greenwich, SE10**  
Proceeds: £111.8 million  
Value at 31st January 2007: £53.1 million  
An eight acre cleared site on the south bank of the Thames, overlooking Canary Wharf, with planning consent for apartments and commercial space.
- **160–166 Brompton Road, Knightsbridge, SW3**  
Proceeds: £45.0 million  
Value at 31st January 2007: £19.2 million  
A 2,300m<sup>2</sup> retail and office property producing short-term income of £0.8 million per annum.
- **Argosy House, 215 Great Portland Street, W1**  
Proceeds: £23.0 million  
Value at 31st December 2006: £16.0 million  
A vacant 2,800m<sup>2</sup> office building requiring refurbishment.
- **3–4 South Place, EC2**  
Proceeds: £18.2 million  
Value at 31st January 2007: £10.9 million  
Two adjacent vacant office buildings situated close to Broadgate and totalling 3,500m<sup>2</sup>.
- **Broadmead House and Westcombe House, 19–23 Panton Street, SW1**  
Proceeds: £17.5 million  
Value at 31st December 2006: £9.0 million  
A multi-let 1,500m<sup>2</sup> office and restaurant building located adjacent to Leicester Square and providing short-term income of £0.3 million per annum.



# Operating review

In addition, disposals of provincial assets included:

- Lion and Lamb Yard, Farnham  
Proceeds: £32.3 million  
Value at 31st January 2007: £29.4 million  
A 6,500m<sup>2</sup> shopping centre producing £1.6 million per annum and anchored by a Waitrose supermarket. The property was held in a joint venture with the Portman Estate.
- 32–38 High Street, Dorking  
Proceeds: £6.5 million  
Value at 31st January 2007: £4.5 million  
A 2,500m<sup>2</sup> supermarket, let to J Sainsbury at a rent of £0.3 million per annum.
- Dukes Lane and Middle Street, Brighton  
Proceeds: £20.0 million  
Value at 31st January 2007: £13.1 million  
A multi-let central shopping centre and entertainment venue totalling 5,950m<sup>2</sup> and producing £0.9 million per annum.
- Turnford Triangle, Cheshunt  
Proceeds: £5.0 million  
Value at 31st January 2007: £2.3 million  
A three acre cleared site where we had obtained outline residential planning permission.
- Quadrant Arcade and South Street, Romford  
Proceeds: £16.0 million  
Value at 31st January 2007: £17.5 million  
A 5,700m<sup>2</sup> multi-let retail arcade in the centre of Romford producing £1.0 million per annum.

Further disposals are planned in line with our strategy to focus on larger Central London properties. The capital generated is being reinvested in our substantial redevelopment programme which we believe offers high returns and in significant acquisitions to the portfolio when value enhancing opportunities are found.

On behalf of the board

J.D. Burns  
11th September 2007

# Group income statement (unaudited)

	Note	Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
Gross property income		<b>50.5</b>	26.1	51.3
Development income	2	<b>6.8</b>	6.3	11.6
Property outgoings		<b>(4.4)</b>	(2.5)	(4.9)
Net property income		<b>52.9</b>	29.9	58.0
Administrative expenses		<b>(10.4)</b>	(4.2)	(10.1)
Goodwill impairment	10	<b>(297.3)</b>	–	–
Total administrative expenses		<b>(307.7)</b>	(4.2)	(10.1)
		<b>(254.8)</b>	25.7	47.9
Revaluation surplus		<b>243.2</b>	99.2	223.3
Profit on disposal of investment properties	3	<b>9.0</b>	1.7	2.9
Profit on disposal of investments		<b>1.0</b>	–	–
(Loss)/profit from operations		<b>(1.6)</b>	126.6	274.1
Finance income		<b>0.6</b>	0.2	0.4
Finance costs		<b>(24.0)</b>	(9.9)	(20.4)
Exceptional finance costs	4	<b>(1.8)</b>	–	(18.1)
Total finance costs		<b>(25.8)</b>	(9.9)	(38.5)
Movement in fair value of derivative financial instruments		<b>6.7</b>	2.2	3.2
Share of results of joint ventures	5	<b>(0.2)</b>	3.5	3.6
(Loss)/profit before tax		<b>(20.3)</b>	122.6	242.8
Tax credit/(expense)	6	<b>224.0</b>	(30.4)	(60.6)
Profit for the period	14	<b>203.7</b>	92.2	182.2
Attributable to:				
Equity shareholders		<b>202.2</b>	92.2	182.2
Minority interest		<b>1.5</b>	–	–
Earnings per share	7	<b>220.75p</b>	172.42p	340.13p
Diluted earnings per share	7	<b>219.42p</b>	170.98p	337.21p

# Group balance sheet (unaudited)

	Note	30.06.07 £m	30.06.06 £m	31.12.06 £m
Non-current assets				
Investment property	8	2,804.6	1,144.6	1,274.0
Property, plant and equipment	9	110.7	0.3	0.3
Investments		8.1	5.3	5.4
Pension scheme surplus		2.9	–	–
Financial assets	12	13.0	–	0.1
Other receivables		21.6	13.7	13.7
		<b>2,960.9</b>	<b>1,163.9</b>	<b>1,293.5</b>
Current assets				
Trading properties	11	9.4	–	–
Trade and other receivables		34.1	16.6	39.4
Corporation tax asset		–	–	1.4
Cash and cash equivalents		20.9	7.2	–
		<b>64.4</b>	<b>23.8</b>	<b>40.8</b>
Total assets		<b>3,025.3</b>	<b>1,187.7</b>	<b>1,334.3</b>
Current liabilities				
Bank overdraft and loans	12	38.6	–	2.2
Trade and other payables		30.4	21.0	32.5
Corporation tax liability		62.2	3.8	–
Provisions		0.8	0.1	0.1
		<b>132.0</b>	<b>24.9</b>	<b>34.8</b>
Non-current liabilities				
Financial liabilities	12	929.9	335.1	347.6
Provisions		4.3	1.3	1.3
Deferred tax	13	26.0	131.8	167.2
		<b>960.2</b>	<b>468.2</b>	<b>516.1</b>
Total liabilities		<b>1,092.2</b>	<b>493.1</b>	<b>550.9</b>
Total net assets		<b>1,933.1</b>	<b>694.6</b>	<b>783.4</b>
Equity	14			
Share capital		5.0	2.6	2.6
Share premium		156.1	156.1	156.1
Revaluation reserve		37.2	–	–
Other reserves		914.8	2.7	3.8
Retained earnings		818.5	533.2	620.9
Equity shareholders' funds		<b>1,931.6</b>	<b>694.6</b>	<b>783.4</b>
Minority interest		1.5	–	–
Total equity		<b>1,933.1</b>	<b>694.6</b>	<b>783.4</b>



# Group statement of recognised income and expense (unaudited)

	Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
Profit for the period	203.7	92.2	182.2
Deferred tax in respect of share-based payments	–	–	0.6
Revaluation of assets under construction	53.2	–	–
Deferred tax in respect of assets under construction	(16.0)	–	–
Pension gains	1.5	–	–
Total recognised income and expense relating to the period	242.4	92.2	182.8
Attributable to:			
Equity shareholders	240.9	92.2	182.8
Minority interest	1.5	–	–

# Group cash flow statement (unaudited)

	Note	Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
Operating activities				
Cash received from tenants		63.8	29.5	48.7
Direct property expenses		(7.6)	(2.2)	(5.5)
Cash paid to and on behalf of employees		(5.7)	(2.9)	(4.5)
Other administrative expenses		(5.5)	(1.6)	(3.9)
Exceptional administrative expenses	16	(17.3)	–	–
Interest received		1.0	0.2	0.4
Interest paid		(26.5)	(10.6)	(21.9)
Exceptional finance costs	16	(3.3)	–	(17.6)
Tax expense paid in respect of operating activities		(1.4)	(2.2)	(1.3)
Net cash (used in)/from operating activities		(2.5)	10.2	(5.6)
Investing activities				
Acquisition of investment properties		(20.9)	(32.3)	(48.9)
Capital expenditure on investment properties		(42.9)	(8.4)	(18.9)
Capital expenditure on assets under construction		(3.2)	–	–
Disposal of investment properties		19.4	12.0	31.2
Acquisition of subsidiaries (net of cash acquired)		(38.4)	–	(6.6)
Purchase of property, plant and equipment		(0.1)	–	(0.2)
Proceeds from sale of property, plant and equipment		0.2	–	–
Proceeds from sale of investments		9.2	–	–
Distributions received from joint ventures		5.7	–	–
Tax expense paid in respect of investment activities		(0.3)	(0.8)	(2.9)
Net cash used in investment activities		(71.3)	(29.5)	(46.3)
Financing activities				
Movement in bank loans		91.5	18.0	78.5
Movement in loan notes		32.5	–	–
Redemption of debenture		(26.6)	–	(35.0)
Net proceeds of share issue		–	1.0	1.0
Dividends paid		(5.6)	(5.2)	(7.5)
Net cash from financing activities		91.8	13.8	37.0
Increase/(decrease) in cash and cash equivalents in the period		18.0	(5.5)	(14.9)
Cash and cash equivalents at the beginning of the period		(2.2)	12.7	12.7
Cash and cash equivalents at the end of the period		15.8	7.2	(2.2)

# Notes to the financial statements

- 1 This statement does not comprise statutory accounts as defined in Section 240 of the Companies Act 1985. The results for the half year to 30th June 2007 and the comparative period for the half year to 30th June 2006 have not been audited. The results to 31st December 2006 are extracted from the financial statements for that year. These received an unqualified independent auditor's report which did not refer to any matter to which the auditors drew attention by way of emphasis without qualifying their report, nor contain a statement under s237(2)-(3) of the Companies Act 1985 and have been filed with the Registrar of Companies.

## Basis of preparation

The results for the half year to 30th June 2007 include those for the holding company and all of its subsidiaries, together with the group's share of the results of its joint ventures. The results are prepared on the basis of the accounting policies set out in the 2006 annual report and financial statements with the addition of the policies below. These new policies relate to new asset and liability classes arising as a result of the acquisition of London Merchant Securities plc.

## 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.

## Assets under construction

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

## Trading property

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

## Employee benefits

### (i) Pensions

#### (a) Defined contribution plans

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

#### (b) Defined benefit plans

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

### (ii) Cash settled share-based remuneration

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.

As permitted under IFRS, the group has chosen not to adopt early IAS 34, Interim Financial Reporting, in preparing this interim report and therefore the financial information is not in full compliance with the presentational and disclosure requirements of IFRS.

The preparation of financial statements requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the group income statement and group balance sheet. Such decisions are made at the time the financial statements are prepared and adopted based on the best information available at the time. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent.



# Notes to the financial statements

## 2 Development income

The amount of £6.8m (half year to 30th June 2006: £6.3m; year to 31st December 2006: £11.6m) is the proportion of the total profit share estimated to have been earned by the group in the half year to 30th June 2007 from the construction and letting of a property on behalf of a third party.

## 3 Profit on disposal of investment properties

Disposal proceeds  
Carrying value  
Leasehold liabilities

Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
19.6	12.0	31.2
(10.6)	(10.3)	(30.7)
–	–	2.4
9.0	1.7	2.9

## 4 Exceptional finance costs

Cost of acquisition facility  
(Profit)/loss on redemption of debenture

Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
3.3	–	–
(1.5)	–	18.1
1.8	–	18.1

A debenture was fair valued at £8.1m on the acquisition of London Merchant Securities plc. On redemption, the premium paid was £6.6m generating a profit of £1.5m.

## 5 Share of results of joint ventures

(Loss)/profit from operations before revaluation surplus  
Revaluation surplus

Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
(0.2)	–	0.1
–	3.5	3.5
(0.2)	3.5	3.6

# Notes to the financial statements

## 6 Tax (credit)/expense

Corporation tax expense

UK corporation tax and income tax on profits for the period

REIT conversion charge

Adjustment for over provision in prior periods

Deferred tax (credit)/expense

Origination and reversal of temporary differences

Adjustment for under provision in prior periods

	Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
	10.2	3.8	0.7
	54.7	–	–
	–	–	(1.0)
	64.9	3.8	(0.3)
	(288.9)	26.6	60.6
	–	–	0.3
	(288.9)	26.6	60.9
	(224.0)	30.4	60.6

The tax for all periods is lower than the standard rate of corporation tax in the UK.

The differences are explained below:

(Loss)/profit before tax

Expected tax (credit)/charge based on the standard rate of corporation tax  
in the UK of 30% (2006: 30%)

Indexation relief on investment properties

Difference between tax and accounting profit on disposals

Goodwill impairment

Deferred tax released on REIT conversion

REIT conversion charge

Other differences

Tax (credit)/expense on current period's profit

Adjustments in respect of prior periods' tax

	Half year to 30.06.07 £m	Half year to 30.06.06 £m	Year to 31.12.06 £m
	(20.3)	122.6	242.8
	(6.1)	36.8	72.8
	–	(6.7)	(11.1)
	1.0	0.3	0.2
	89.2	–	–
	(361.8)	–	–
	54.7	–	–
	(1.0)	–	(0.6)
	(224.0)	30.4	61.3
	–	–	(0.7)
	(224.0)	30.4	60.6

Tax charged/(credited) directly to reserves

Deferred tax on revaluation of assets under construction

Deferred tax on share-based payments

	16.0	–	–
	–	–	(0.6)
	16.0	–	(0.6)

# Notes to the financial statements

## 7 Earnings per share

Half year ended 30th June 2007  
Adjustment for dilutive share-based payments  
Diluted

Half year ended 30th June 2006  
Adjustment for dilutive share-based payments  
Diluted

Year ended 31st December 2006  
Adjustment for dilutive share-based payments  
Diluted

Half year ended 30th June 2007  
Adjustment for:  
Disposal of investment properties and investments  
Group revaluation surplus  
Fair value movement in derivative financial instruments  
Deferred tax released on REIT conversion  
REIT conversion charge  
Goodwill impairment  
Disposal of joint venture investment property  
Adjusted

Half year ended 30th June 2006  
Adjustment for:  
Deferred tax on capital allowances  
Disposal of investment properties  
Group revaluation surplus  
Share of joint venture's revaluation surplus  
Fair value movement in derivative financial instruments  
Adjusted

Year ended 31st December 2006  
Adjustment for:  
Deferred tax on capital allowances  
Disposal of investment properties  
Group revaluation surplus  
Share of joint venture's revaluation surplus  
Adjusted

	Profit for the period £m	Weighted average number of shares '000	Earnings per share p
	203.7	92,275	<b>220.75</b>
	–	561	<b>(1.33)</b>
	203.7	92,836	<b>219.42</b>
	92.2	53,475	172.42
	–	451	(1.44)
	92.2	53,926	170.98
	182.2	53,567	340.13
	–	464	(2.92)
	182.2	54,031	337.21
	203.7	92,275	<b>220.75</b>
	(7.0)	–	<b>(7.59)</b>
	(170.3)	–	<b>(184.55)</b>
	(6.7)	–	<b>(7.26)</b>
	(361.8)	–	<b>(392.09)</b>
	54.7	–	<b>59.28</b>
	297.3	–	<b>322.19</b>
	0.2	–	<b>0.22</b>
	10.1	92,275	<b>10.95</b>
	92.2	53,475	172.42
	1.6	–	2.99
	(1.0)	–	(1.87)
	(75.7)	–	(141.56)
	(2.9)	–	(5.43)
	(1.6)	–	(2.99)
	12.6	53,475	23.56
	182.2	53,567	340.13
	2.7	–	5.04
	(1.7)	–	(3.17)
	(167.0)	–	(311.76)
	(2.9)	–	(5.41)
	13.3	53,567	24.83

The adjusted earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, and the profit or loss arising from the disposal of investment properties and investments in order to show the underlying trend. In addition, the conversion charge and the release of deferred tax related to the transfer to REIT status, and the impairment of goodwill resulting from the acquisition of London Merchant Securities plc have also been excluded. For the 2006 figures, the adjusted earnings per share figure also excludes the deferred tax charge in respect of capital allowances claimed on the basis that it was unlikely that a liability would ever crystallise.



# Notes to the financial statements

## 8 Investment property

Carrying value

At 1st January 2007

	Freehold £m	Leasehold £m	Total £m
At 1st January 2007	1,025.2	248.8	1,274.0
Arising on acquisition of subsidiary	1,104.6	141.0	1,245.6
Acquisitions	–	21.0	21.0
Capital expenditure	30.1	1.3	31.4
Additions	1,134.7	163.3	1,298.0
Disposals	(10.6)	–	(10.6)
Revaluation	209.1	34.1	243.2
<b>At 30th June 2007</b>	<b>2,358.4</b>	<b>446.2</b>	<b>2,804.6</b>

At 1st January 2006

Transfer

At 1st January 2006	724.2	291.4	1,015.6
Transfer	2.5	(2.5)	–
Acquisitions	34.1	–	34.1
Capital expenditure	6.0	0.4	6.4
Additions	40.1	0.4	40.5
Disposals	(10.3)	–	(10.3)
Revaluation	81.5	17.7	99.2
Movement in grossing up of headlease liabilities	–	(0.4)	(0.4)
At 30th June 2006	838.0	306.6	1,144.6

At 1st January 2006

Transfer

At 1st January 2006	724.2	291.4	1,015.6
Transfer	38.5	(38.5)	–
Acquisitions	58.3	–	58.3
Capital expenditure	17.8	0.9	18.7
Additions	76.1	0.9	77.0
Disposals	(10.3)	(20.4)	(30.7)
Revaluation	196.7	26.6	223.3
Movement in grossing up of headlease liabilities	–	(11.2)	(11.2)
At 31st December 2006	1,025.2	248.8	1,274.0

Adjustments from fair value to carrying value

At 30th June 2007

Fair value

Adjustment for rents recognised in advance

Adjustment for grossing up of headlease liabilities

Carrying value

At 30th June 2007	2,381.4	437.7	2,819.1
Fair value	(23.0)	(1.0)	(24.0)
Adjustment for rents recognised in advance	–	9.5	9.5
Adjustment for grossing up of headlease liabilities	2,358.4	446.2	2,804.6

At 30th June 2006

Fair value

Adjustment for rents recognised in advance

Adjustment for grossing up of headlease liabilities

Carrying value

At 30th June 2006	851.8	287.8	1,139.6
Fair value	(13.8)	(0.9)	(14.7)
Adjustment for rents recognised in advance	–	19.7	19.7
Adjustment for grossing up of headlease liabilities	838.0	306.6	1,144.6

At 31st December 2006

Fair value

Adjustment for rents recognised in advance

Adjustment for grossing up of headlease liabilities

Carrying value

At 31st December 2006	1,039.7	243.0	1,282.7
Fair value	(14.5)	(0.8)	(15.3)
Adjustment for rents recognised in advance	–	6.6	6.6
Adjustment for grossing up of headlease liabilities	1,025.2	248.8	1,274.0

# Notes to the financial statements

## 8 Investment property (continued)

The investment property was revalued at 30th June 2007 at £2,819.1m (30th June 2006: £1,139.6m; 31st December 2006: £1,282.7m) by CB Richard Ellis Limited and Smiths Gore (2006: CB Richard Ellis Limited and Keith Cardale Groves (Commercial) Limited), as external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. At 30th June 2007, the historical cost of investment property owned by the group was £1,126.1m (30th June 2006: £667.4m; 31st December 2006: £688.9m).

## 9 Property, plant and equipment

Net book value

At 1st January 2006

Depreciation

At 30th June 2006

Additions

Disposals

At 31st December 2006

Arising on acquisition of subsidiary

Additions

Disposals

Depreciation

Revaluation

**At 30th June 2007**

Net book value at 30th June 2007

Cost or valuation

Accumulated depreciation

Net book value at 30th June 2006

Cost

Accumulated depreciation

Net book value at 31st December 2006

Cost

Accumulated depreciation

	Assets under construction £m	Plant and equipment £m	Total £m
At 1st January 2006	–	0.4	0.4
Depreciation	–	(0.1)	(0.1)
At 30th June 2006	–	0.3	0.3
Additions	–	0.2	0.2
Disposals	–	(0.2)	(0.2)
At 31st December 2006	–	0.3	0.3
Arising on acquisition of subsidiary	53.1	1.6	54.7
Additions	2.7	0.1	2.8
Disposals	–	(0.2)	(0.2)
Depreciation	–	(0.1)	(0.1)
Revaluation	53.2	–	53.2
<b>At 30th June 2007</b>	<b>109.0</b>	<b>1.7</b>	<b>110.7</b>
Net book value at 30th June 2007	109.0	3.2	112.2
Cost or valuation	–	(1.5)	(1.5)
Accumulated depreciation	109.0	1.7	110.7
Net book value at 30th June 2006	–	1.3	1.3
Cost	–	(1.0)	(1.0)
Accumulated depreciation	–	0.3	0.3
Net book value at 31st December 2006	–	1.2	1.2
Cost	–	(0.9)	(0.9)
Accumulated depreciation	–	0.3	0.3

Assets under construction were revalued at 30th June 2007 at £109.0m (30th June 2006: £nil; 31st December 2006: £nil) by CB Richard Ellis Limited, as external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

## 10 Acquisition of subsidiaries

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

	£m
Cost of acquisition	
Equity	912.9
Loan notes	32.5
Cash	12.2
Directly attributable acquisition costs	8.0
	<b>965.6</b>

# Notes to the financial statements

## 10 Acquisition of subsidiaries (continued)

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

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

The net assets acquired at 1st February were:

	Book value of net assets acquired £m	Fair value of net assets acquired £m
Non-current assets		
Investment property	1,245.6	1,245.6
Property, plant and equipment	53.9	54.7
Investments	18.0	17.5
Pension scheme surplus	1.4	1.4
Deferred tax asset	12.0	12.0
Financial assets	6.1	6.1
Other receivables	6.2	6.2
	<u>1,343.2</u>	<u>1,343.5</u>
Current assets		
Trading property	1.3	9.4
Trade and other receivables	9.4	8.8
Cash and cash equivalents	13.9	13.9
	<u>24.6</u>	<u>32.1</u>
Total assets	<u>1,367.8</u>	<u>1,375.6</u>
Current liabilities		
Bank loans	(4.6)	(4.6)
Trade and other payables	(39.8)	(40.9)
	<u>(44.4)</u>	<u>(45.5)</u>
Non-current liabilities		
Financial liabilities	(480.4)	(510.6)
Deferred tax liability	(148.8)	(144.4)
Other	(6.8)	(6.8)
	<u>(636.0)</u>	<u>(661.8)</u>
Total liabilities	<u>(680.4)</u>	<u>(707.3)</u>
Total net assets acquired	<u>687.4</u>	<u>668.3</u>
Goodwill on acquisition		<u>297.3</u>
Cost of acquisition		<u>965.6</u>

## 10 Acquisition of subsidiaries (continued)

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

At the date of publishing the year end report and accounts, work was still outstanding on the fair value verification exercise. This has now been completed and a number of amendments were identified to both book value and fair value.

A detailed review of the existence of intangible assets other than goodwill has been concluded, and none were found to have any material value. An impairment test has been carried out on the goodwill arising on the acquisition.

The properties acquired on the acquisition of London Merchant Securities complement the existing portfolio of properties held by the group. It is anticipated that, in future, the group will be capable of deriving significantly enhanced cashflows from the acquired portfolio due to future lease management, refurbishment and redevelopment, which are proposed to be made to the acquired property portfolio. While the amount that the group has paid for London Merchant Securities is justified by these anticipated enhancements and benefits that will be brought to the group, IAS 36, Impairment of Assets, does not permit such enhancements to be included in the cashflows used in estimating value in use for the purposes of impairment testing, and instead requires the cashflows to be based on the assets in their current condition.

In addition, the benefits arising from the acquired portfolio are specific to the group and, consequently, the fair value, less costs to sell, of the acquired business is unlikely to support the carrying amount of the goodwill associated with the acquisition.

As a consequence, the goodwill associated with this transaction is deemed to be fully impaired and has been written off to the group income statement.

If the date for this acquisition had been 1st January 2007 then the gross property income for the combined entity would have increased by £4.6m. As the fair value adjustments and adjustments arising from the application of Derwent London's accounting policies made above have not been made to the results of London Merchant Securities for 31st December 2006 it is impractical to assess the impact on the profit for the period arising from a 1st January 2007 acquisition date. The profit for the period ended 30th June 2007 of £203.7m includes post acquisition profits of £195.6m for London Merchant Securities.

## 11 Trading properties

The fair value of trading properties at 30th June 2007 is the same as their book value.



# Notes to the financial statements

## 12 Financial assets and liabilities

	30.06.07 £m	30.06.06 £m	31.12.06 £m
Non-current assets			
Derivative financial instruments	13.0	–	0.1
Current liabilities			
Bank loans	33.3	–	–
Unsecured loans	0.2	–	–
Overdraft	5.1	–	2.2
	38.6	–	2.2
Non-current liabilities			
6.5% Secured Bonds 2026	195.4	–	–
10%% First Mortgage Debenture Stock 2019	–	34.5	–
Loan notes	32.5	–	–
Bank loans	689.0	280.0	341.0
Mortgages	2.2	–	–
Unsecured loans	1.3	–	–
Leasehold liabilities	9.5	19.7	6.6
Derivative financial instruments	–	0.9	–
	929.9	335.1	347.6
Net financial liabilities	955.5	335.1	349.7

## 13 Deferred tax

	Revaluation surplus £m	Capital allowances £m	Other £m	Total £m
At 1st January 2007	150.2	16.3	0.7	167.2
Arising on acquisition of subsidiary	135.9	7.8	(11.3)	132.4
Transfer to investment in joint ventures	(0.7)	–	–	(0.7)
Provided during the period in the group income statement	72.9	–	–	72.9
Released during the period	(343.7)	(24.1)	6.0	(361.8)
Provided during the period in the revaluation reserve	16.0	–	–	16.0
<b>At 30th June 2007</b>	<b>30.6</b>	<b>–</b>	<b>(4.6)</b>	<b>26.0</b>
At 1st January 2006	91.6	13.6	–	105.2
Provided during the period in the group income statement	24.1	1.6	0.9	26.6
At 30th June 2006	115.7	15.2	0.9	131.8
At 1st January 2006	91.6	13.6	–	105.2
Adjustment to reserves in respect of deferred tax on share-based payments	–	–	(0.6)	(0.6)
Arising on acquisition of subsidiary	1.7	–	–	1.7
Provided during the period in the group income statement	56.9	2.7	1.3	60.9
At 31st December 2006	150.2	16.3	0.7	167.2

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 conversion to REIT status on 1st July 2007, deferred tax is only provided at 30th June 2007 on properties outside of the REIT regime.

# Notes to the financial statements

## 14 Equity

	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves £m	Retained earnings £m
At 1st January 2007	2.6	156.1	–	3.8	620.9
Issue of shares	2.4	–	–	–	–
Premium on issue of shares	–	–	–	910.5	–
Revaluation of assets under construction	–	–	53.2	–	–
Deferred tax on revaluation of assets under construction	–	–	(16.0)	–	–
Pension gains	–	–	–	–	1.5
Foreign exchange translation differences	–	–	–	–	(0.5)
Share-based payments expense transferred to reserves	–	–	–	0.5	–
Profit for the period	–	–	–	–	203.7
Dividend paid	–	–	–	–	(5.6)
	5.0	156.1	37.2	914.8	820.0
Minority interest	–	–	–	–	(1.5)
<b>At 30th June 2007</b>	<b>5.0</b>	<b>156.1</b>	<b>37.2</b>	<b>914.8</b>	<b>818.5</b>
At 1st January 2006	2.6	155.1	–	2.3	446.2
Premium on issue of shares	–	1.0	–	–	–
Share-based payments expense transferred to reserves	–	–	–	0.4	–
Profit for the period	–	–	–	–	92.2
Dividend paid	–	–	–	–	(5.2)
At 30th June 2006	2.6	156.1	–	2.7	533.2
At 1st January 2006	2.6	155.1	–	2.3	446.2
Premium on issue of shares	–	1.0	–	–	–
Share-based payments expense transferred to reserves	–	–	–	0.9	–
Deferred tax in respect of share-based payments	–	–	–	0.6	–
Profit for the period	–	–	–	–	182.2
Dividend paid	–	–	–	–	(7.5)
At 31st December 2006	2.6	156.1	–	3.8	620.9

The £910.5m movement in other reserves relates to the premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities (see note 10).

## 15 Dividend

The results for the half year to 30th June 2007 do not include the dividend declared after the end of the accounting period. In respect of these results, a dividend of 7.5p per share (2006 interim: 4.225p; 2006 2nd interim: 10.525p) will be paid on 9th November 2007 to those shareholders on the register at the close of business on 5th October 2007. The second interim dividend payment of 10.525p for 2006 replaced the final dividend in respect of that year.

## 16 Exceptional cash flows

The half year to 30th June 2007 contained exceptional administration expenses of £17.3m (half year to 30th June 2006: £nil; year to 31st December 2006: £nil) which relate to costs incurred by London Merchant Securities prior to the acquisition and accrued at 31st January 2007 in the fair value balance sheet shown in note 10.

The half year to 30th June 2007 also contained exceptional finance costs of £3.3m (half year to 30th June 2006: £nil; year to 31st December 2006: £17.6m), which is the cost of acquisition finance (see note 4).

# Notes to the financial statements

## 17 Net asset value per share

At 30th June 2007

Adjustment for deferred tax on revaluation surplus

Adjustment for fair value of derivative financial instruments

Adjustment for fair value adjustment of secured bonds

Adjusted

At 30th June 2006

Adjustment for deferred tax on capital allowances

Adjustment for deferred tax on revaluation surplus

Adjustment for post tax fair value of derivative financial instruments

Adjusted

At 31st December 2006

Adjustment for deferred tax on capital allowances

Adjustment for deferred tax on revaluation surplus

Adjustment for post tax fair value of derivative financial instruments

Adjusted

	Net assets £m	Number of shares '000	Net asset value per share p
At 30th June 2007	1,933.1	100,574	<b>1,922</b>
Adjustment for deferred tax on revaluation surplus	0.3	–	–
Adjustment for fair value of derivative financial instruments	(13.0)	–	<b>(13)</b>
Adjustment for fair value adjustment of secured bonds	22.1	–	<b>22</b>
Adjusted	<b>1,942.5</b>	<b>100,574</b>	<b>1,931</b>
At 30th June 2006	694.6	53,656	1,295
Adjustment for deferred tax on capital allowances	15.2	–	28
Adjustment for deferred tax on revaluation surplus	115.7	–	216
Adjustment for post tax fair value of derivative financial instruments	0.6	–	1
Adjusted	<b>826.1</b>	<b>53,656</b>	<b>1,540</b>
At 31st December 2006	783.4	53,656	1,460
Adjustment for deferred tax on capital allowances	16.3	–	30
Adjustment for deferred tax on revaluation surplus	150.2	–	280
Adjustment for post tax fair value of derivative financial instruments	(0.1)	–	–
Adjusted	<b>949.8</b>	<b>53,656</b>	<b>1,770</b>

At 30th June 2006 and 31st December 2006, adjusted net assets excluded the deferred tax provided in respect of capital allowances claimed, on the basis that it was unlikely that this liability would ever crystallise. The deferred tax on the revaluation surplus and the post tax fair value of derivative financial instruments are also excluded, on the basis that these amounts are not relevant when considering the group as an ongoing business.

At 30th June 2007, the majority of the deferred tax on the revaluation surplus relates to a property which was disposed of shortly after the balance sheet date crystallising the tax at that date. Therefore, the deferred tax on this property has not been added back to arrive at the adjusted net assets. The remaining deferred tax on the revaluation surplus together with the fair value of derivative financial instruments and the secured bonds are excluded from adjusted net assets.

## 18 Total return

Total return for the half year to 30th June 2007 is 9.7% (half year to 30th June 2006: 16.1%; year to 31st December 2006: 33.6%).

Total return is the movement in adjusted net asset value per share, as derived in note 17, plus the dividend per share paid during the period expressed as a percentage of the adjusted net asset value per share at the beginning of the period.

## 19 Gearing

Balance sheet gearing at 30th June 2007 was 49.1% (30th June 2006: 47.1%; 31st December 2006: 44.7%). This is defined as net debt divided by net assets.

Profit and loss gearing for the half year to 30th June 2007 was 1.50 (half year to 30th June 2006: 2.07; year to 31st December 2006: 1.85). This is defined as recurring net property income less administrative costs divided by net interest payable, having reversed the reallocation of ground rent payable on leasehold properties to interest payable of £0.3m (half year to 30th June 2006: £0.6m; year to 31st December 2006: £0.9m).

## 20 Post balance sheet events

Since the 30th June 2007, the group has completed the purchase of a freehold property for £46.3m, excluding costs, and exchanged contracts for the purchase of a freehold property for £52.5m, excluding costs. In addition, the group has completed the disposal of 9 properties for a total of £215.4m, before costs, and exchanged contracts on the disposal of a further 9 properties for a total of £98.8m, before costs.

# Post acquisition proforma balance sheet (unaudited)

	Derwent Group 31.12.06 £m	LMS Group 31.01.07 £m	Adjustments £m	Derwent London Group £m
Non-current assets				
Investment property	1,274.0	1,245.6	–	2,519.6
Property, plant and equipment	0.3	54.7	–	55.0
Investments	5.4	17.5	–	22.9
Pension scheme surplus	–	1.4	–	1.4
Deferred tax asset	–	12.0	–	12.0
Financial assets	0.1	6.1	–	6.2
Other receivables	13.7	6.2	–	19.9
	<b>1,293.5</b>	<b>1,343.5</b>	<b>–</b>	<b>2,637.0</b>
Current assets				
Trading property	–	9.4	–	9.4
Corporation tax asset	1.4	–	–	1.4
Trade and other receivables	39.4	8.8	(8.0)	40.2
Cash and cash equivalents	–	13.9	–	13.9
	<b>40.8</b>	<b>32.1</b>	<b>(8.0)</b>	<b>64.9</b>
Total assets	<b>1,334.3</b>	<b>1,375.6</b>	<b>(8.0)</b>	<b>2,701.9</b>
Current liabilities				
Bank overdraft and loans	(2.2)	(4.6)	–	(6.8)
Trade and other payables	(32.5)	(40.9)	–	(73.4)
Provisions	(0.1)	–	–	(0.1)
	<b>(34.8)</b>	<b>(45.5)</b>	<b>–</b>	<b>(80.3)</b>
Non-current liabilities				
Financial liabilities	(347.6)	(510.6)	(44.7)	(902.9)
Deferred tax liability	(167.2)	(144.4)	–	(311.6)
Provisions	(1.3)	–	–	(1.3)
Other	–	(6.8)	–	(6.8)
	<b>(516.1)</b>	<b>(661.8)</b>	<b>(44.7)</b>	<b>(1,222.6)</b>
Total liabilities	<b>(550.9)</b>	<b>(707.3)</b>	<b>(44.7)</b>	<b>(1,302.9)</b>
Total net assets	<b>783.4</b>	<b>668.3</b>	<b>(52.7)</b>	<b>1,399.0</b>
Equity				
Share capital	2.6	82.6	(80.2)	5.0
Share premium	156.1	22.2	(22.2)	156.1
Other reserves	3.8	11.1	899.4	914.3
Retained earnings	620.9	496.4	(793.7)	323.6
Equity minority interests	–	56.0	(56.0)	–
Total equity	<b>783.4</b>	<b>668.3</b>	<b>(52.7)</b>	<b>1,399.0</b>
Net asset value per share				<b>1,391p</b>
Adjusted net asset value per share				<b>1,717p</b>

# Directors and advisers

## Directors

R.A. Rayne, non-executive chairman  
J.C. Ivey, non-executive deputy chairman†  
J.D. Burns, chief executive officer  
S.P. Silver  
C.J. Odom  
N.Q. George  
P.M. Williams  
S.J. Neathercoat, senior non-executive\*  
R.A. Farnes, non-executive\*  
S.A. Corbyn, non-executive\*  
D. Newell, non-executive\*  
J. de Moller, non-executive\*

† member of nomination committee

\* member of remuneration, audit and nomination committees

## Secretary

T.J. Kite, ACA

## Auditor

BDO Stoy Hayward LLP

## Solicitor

Slaughter and May

## Brokers

UBS  
JP Morgan Cazenove

## Clearing banker

HSBC Bank plc

## Registrar

Lloyds TSB Registrars



The paper used in this interim report is 100% chlorine free woodpulp from sustainable forests, using thinnings and waste from the timber industry and is totally recyclable and biodegradable. Our printers utilise soya based inks.

Designed and produced by Cartlidge Levene  
[www.cartlidgelevene.co.uk](http://www.cartlidgelevene.co.uk)  
Printed in England by CTD Printers

Registered office:  
25 Savile Row  
London W1S 2ER

t 020 7659 3000  
f 020 7659 3100  
[www.derwentlondon.com](http://www.derwentlondon.com)

Registered No.1819699

**DERWENT  
LONDON**