Derwent London plc

Interim results 2012 announcement

DERWENT LONDON

22 August 2012

Derwent London plc ("Derwent London" / "the Group")

Interim results for the six months ended 30 June 2012

GOOD MOMENTUM IN LONDON'S OLYMPIC YEAR

Financial highlights

- EPRA net asset value per share increased by 4.1% to 1,770p from 1,701p at 31 December 2011
- EPRA profit before tax was £26.5m (H1 2011: £26.6m)
- Interim dividend per share of 9.95p (H1 2011: 9.45p), an increase of 5.3%
- Balance sheet strengthened further – loan-to-value ratio reduced to 31.4% (31 December 2011: 32.0%)
- New £83m 12-year facility drawn in August 2012, completing the refinancing of facilities due to expire in 2013
- £410m undrawn facilities and £595m of uncharged properties as at 30 June 2012

Property performance

- Valuation rose 3.3% in H1 2012 (H2 2011: 2.9%)
- Rental values rose 2.8% in H1 2012, the fifth successive half year of growth
- EPRA net initial yield 4.5% (31 December 2011: 4.4%), 'topped up' yield 5.1% (31 December 2011: 5.2%) and true equivalent yield 5.58% (31 December 2011: 5.61%)
- Developments and major refurbishments rose 6.1% in value

Portfolio management

- Strong momentum maintained with £8.9m of lettings on 229,100 sq ft (21,280m^2) concluded in the first half
- 1 Page Street SW1 pre-let to Burberry, the largest letting in the West End in the year to date
- Vacancy rate remains low at 1.1% (31 December 2011: 1.3%) reflecting strong demand particularly from the TMT sector
- New open market lettings achieved 3.0% above December 2011 ERV
- Excluding Page Street, which was agreed in 2011 but completed in the first quarter of 2012, open market lettings were 9.4% above December 2011 ERV
- £51.6m of reversionary income potential, an increase of 9.1% over the period

Projects

- Two new projects now on site: active programme increased 67% since the year end to seven projects comprising 0.55 million sq ft (51,100m^2), of which 35% is pre-let or under offer
- Further 0.4 million sq ft (39,190m^2) to start in 2013, which will increase future development expenditure to over £300m
- Four major planning consents obtained
    - 50% already on site or sold
    - Remainder increases reservoir of future consented projects by nearly 25% to 1.5 million sq ft (138,000m^2)
- Grosvenor Place SW1 – joint venture with Grosvenor enables prime mixed-use development with planning submission due next year

Acquisitions and disposals

- Acquired Francis House SW1 for £29.1m on a 5.1% net initial yield
- Sold three properties and a 50% stake in 1-5 Grosvenor Place SW1 in the year to date for £161.5m on a disposal yield of 2.9%, and 4.5% surplus over 31 December 2011 values

Robert Rayne, Chairman, commented:

"London has a number of characteristics that makes its real estate market particularly attractive. Investment and tenant demand remain strong and supply of good quality office space is restricted by the constraints of planning and the general limited availability of finance. Furthermore, the events of this year, the Diamond Jubilee celebrations and the Olympics, have enhanced London's global status as a premier capital city."

John Burns, Chief Executive Officer, commented:

"Derwent London remains a well-financed business, with regeneration opportunities both in the short term and over the years to come. We remain confident that, if current market conditions persist, the level of rental growth experienced in our portfolio in the first half will be sustained throughout the rest of the year. Given the favourable balance of occupier demand and supply we are pushing forward with the execution of our development pipeline."

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

Business and finance review

Overview

Since the year end we have been able to deliver on all aspects of the strategy set out in our 2011 Annual Report:

Investing in our portfolio

The level of major projects where we are on site has increased by 67% to 0.55 million sq ft (51,100m^2), and we are on track to start a further 0.4 million sq ft (39,190m^2) in 2013. This will increase future capital expenditure to over £300m, and includes the development of 80 Charlotte Street W1, our largest West End project to date. During the period we established a joint venture with Grosvenor for 1-5 Grosvenor Place SW1, thereby laying the foundations of another prime mixed-use central London development. We also acquired Francis House SW1, adding to our holdings in Victoria, which include adjacent properties.

Creating exciting new spaces

We have had considerable planning success and have secured 0.6 million sq ft (55,590m^2) of new consents on four projects. These generally contain an increasing residential content, reflecting current demand.

We welcome the increasing occupier interest in 'Tech City' given our cluster of properties in the Old Street area. This includes our City Road Estate EC1 which is a significant potential development and is the current focus of our White Collar Factory concept. As part of this initiative, in May a Derwent London team visited San Francisco and Silicon Valley to see for themselves the occupational requirements of creative industries and to meet US tenants who may look to expand into the UK. We were able to create an ongoing dialogue with potential tenants and confirmed that our concept of space creation is very similar to those of the properties and occupiers visited.

Managing our assets

In a market where demand for our properties is strong and our vacancy rate is currently around 1%, we were able to continue the high level of lettings achieved in 2011 with a large element of pre-letting. We have also been successful in re-letting space where leases have expired, facilitating tenant expansion and extending leases.

Retaining financial strength and flexibility

Global financial conditions remain tough. Nevertheless, we have now completed the refinancing of debt facilities that were due to expire in 2013. As part of this process we have accessed a new source of funding, with our recent £83m 12-year fixed rate loan from Cornerstone, part of the US insurer Mass Mutual.

Whilst we are increasing our development activity, our financial performance remains robust. This reflects our focus on holding a well-balanced portfolio with income levels maintained, comfortable interest and dividend cover and ample undrawn facilities. We believe that this places the Group in a sound position from which to progress its development projects.

Market commentary

At a time when the eyes of the world have been on London, it is worth reflecting on our market. London has a number of characteristics that makes its real estate market particularly attractive. Investment and tenant demand remain strong and supply of good quality office space is restricted by the constraints of planning and the general limited availability of finance. Furthermore, the events of this year, the Diamond Jubilee celebrations and the Olympics, have enhanced London's global status as a premier capital city.

London's economy showed considerable resilience in the first half of the year despite the fragility of the wider economy. The central London office market take up in the first half was 5% higher than that of last year according to leading surveyors CBRE and demand remained firm. The TMT (technology, media and telecommunications) and other creative sectors which are particularly active at present, are typically attracted to our mid-market, design-led space. Supply of office space continued to be constrained, with the vacancy rate falling from 5.2% to 5.0% over the period, well below the ten-year average of 6.5%. Although central London development completions are expected to rise to 2.8 million sq ft (260,000m^2) in 2012 from 1.7 million sq ft (158,000m^2) in 2011, this is still 40% below the 10-year average. The ongoing supply-demand imbalance also led to further rental growth across the capital, especially in the West End.

With sovereign debt issues in many parts of the Eurozone, the UK is enjoying 'safe haven' status. London attracted significant investment activity in the half year with £7.2bn of office transactions. This is the highest six-month period of activity since the second half of 2007 and is 37% above the 10-year six-month average. Overseas investors accounted for nearly three quarters of activity with European and North American buyers dominating.

This considerable investor demand in an undersupplied market, coupled with the attractiveness of property returns relative to the low return on gilts, has supported low property yields. This is most evident in our central London market where there is also good occupier demand and positive rental growth. This is illustrated by the performance in the first half of the year of the IPD Quarterly Index (IPD Index) for central London offices which recorded capital growth of 1.8% and a total return of 4.1%. The IPD Index for West End & Midtown offices was even stronger, with capital growth of 2.4% and a total return of 4.7%. Outside London occupier demand is weaker, adversely impacting rents and capital values. The IPD Index for All UK Property saw capital values decline by 1.7% and a total return of 1.2% in the period.

Property performance

The Group's property portfolio was valued at £2.7bn at 30 June 2012. Over the first half, there was a valuation surplus of £82.5m, before deducting lease incentive adjustments of £4.9m. The underlying valuation increase was 3.3%, higher than the 2.9% achieved in the second half of 2011. This was principally driven by growth in the estimated rental value (ERV) of 2.8%, leading to an increase in reversion from £47.3m to £51.6m. Our valuation movement outperformed the benchmark, the IPD Index for capital growth in central London offices, which increased by 1.8%.

Over the half year, underlying rental values in our central London portfolio increased by 2.9%, reflecting our high level of letting activity at improved rents. This was above the 2.2% increase in the preceding six months and marked a fifth successive half-year increase. The IPD Index for central London offices showed rental growth of 1.8% in the period.

The EPRA net initial yield was 4.5% at 30 June 2012 and on a 'topped up' basis, following the expiry of contracted rental uplifts and rent free periods, would increase to 5.1%. The true equivalent yield tightened slightly by 3 basis points to 5.58% over the first half of 2012.

The Group's total property return was 5.2% for the first half. This was above our benchmark IPD Central London Office Index return of 4.1% and the All UK Property return of 1.2%.

Our central London properties, which comprise 96% of the portfolio, rose in value by 3.5% over the half year, as rental values improved and true equivalent yields tightened modestly by 4 basis points. The value of our West End properties increased by 3.2%, and our City Border properties by 4.6%, the latter enhanced by a number of management initiatives.

Within the investment portfolio our current projects, which are in various stages of construction, are progressing well. These included five developments valued at £137m, reflecting a valuation uplift of 9.7% over the period. The Group is also undertaking two major phased refurbishments. Here, the approach is to upgrade and extend the buildings through a rolling programme while preserving an income stream. These buildings increased in value by 3.6% to £188m. Overall, these seven projects, representing 12% of the investment portfolio, increased in value by 6.1% over the half year (for further details see 'Projects' below).

The balance of the portfolio, our non-core Scottish holdings accounting for 4% of value, declined by 1.5% following an outward movement of valuation yields of 12 basis points, whilst rental values were unchanged.

Portfolio management

Strong letting activity continued in the first half of 2012, with 28 transactions producing £8.9m pa of rental income concluded on a floorspace of 229,100 sq ft (21,280m^2), maintaining last year's good momentum. We continue to witness strong demand for the particular space that Derwent London provides, principally from the expanding TMT sector. Given the small amount of space available, the majority of letting activity in the first half involved pre-lets. Activity in the first six months of the year brought lettings over the 12 months to 30 June 2012 to 77 transactions, over an area of 460,000 sq ft (42,730m^2), at an annual rent of £17.1m.

The principal transactions were:

- 1 Page Street SW1 – the 127,000 sq ft (11,800m^2) building was pre-let to Burberry at a rent of £5.3m pa, rising to a minimum of £5.7m pa after five years. This is the largest letting in the West End in the year to date. The rent equates to £50 per sq ft (£540 per m^2) on the best space, which compares to £38 per sq ft (£410 per m^2) on similar space that Burberry currently occupies in our adjacent 162,700 sq ft (15,110m^2) Horseferry House.

- 1 & 2 Stephen Street W1, formerly known as Central Cross – BrandOpus are tripling their presence in our portfolio and will relocate from 5,000 sq ft (460m^2) at the Charlotte Building W1 to 15,400 sq ft (1,430m^2) in Phase 1 of the 1 & 2 Stephen Street refurbishment in 2013. They will occupy ground and lower floor offices, paying a rent of £0.65m pa representing £52.50 per sq ft (£565 per m^2) on the prime space, making this phase of the refurbishment two thirds pre-let at 5% above 31 December 2011 ERV.

- Elephant House, 35 Kentish Town Road NW1 – the refurbishment of this 13,700 sq ft (1,270m^2) building was pre-let to global media company Viacom at £0.4m pa equating to approximately £30 per sq ft (£320 per m^2). This was 20% above December ERV with completion due in spring 2013.

- Middlesex House, 34-42 Cleveland Street W1 – The Blair Partnership took 6,300 sq ft (590m^2) at £0.3m pa reflecting £47.50 per sq ft (£510 per m^2). This was 22% above December ERV.

Our open market lettings in the first half, which excluded short-term transactions at properties held for future development, were at rental levels 3.0% ahead of the 31 December 2011 ERV. If Page Street is excluded, as the transaction was agreed at the end of last year and therefore the terms were reflected in the December ERV, open market lettings were 9.4% above ERV. Overall, including short-term transactions, lettings in the first half of the year exceeded the December ERV by 2.1%.

At the end of June the portfolio's EPRA vacancy rate, calculated as the rental value of immediately available space, was 1.1%, down from 1.3% at the start of the year. By floorspace the rate reduced from 1.3% to 1.0% with the latter equivalent to just 47,000 sq ft (4,370m^2). Since 30 June, the Group has let or placed under offer 49,000 sq ft (4,550m^2), involving both immediately available and current project space, at a rent of £2.0m pa. This includes existing media tenant Grey taking an additional 11,100 sq ft (1,030m^2) at Johnson Building EC1 at £45 per sq ft (£485 per m^2) or £0.5m pa. It also includes 32,100 sq ft (2,980m^2) under offer at our 4 & 10 Pentonville Road N1 scheme. On the completion of Buckley Building EC1 and 4 & 10 Pentonville Road, due later in 2012, the EPRA vacancy rate would increase to 4.6%. Assuming that the space that is under offer at Pentonville Road is let, this rate becomes 3.9%.

A key characteristic of our tenanted portfolio is its reversionary income potential and the opportunity to add value through active lease management. Our central London average passing office rent is modest at £25.01 per sq ft (£269 per m^2) offering a good platform for growth. Allowing for contracted increases, the average 'topped up' rent is £31.50 per sq ft (£339 per m^2). This compares to an ERV as at 30 June 2012 of £34.74 per sq ft (£374 per m^2).

Examples of value adding initiatives, which build on our close tenant relationships, include:

- 1 Oliver's Yard EC2 – four leases to Sage Publications, on 40,300 sq ft (3,740m^2), 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 £25 per sq ft (£270 per m^2) and £36 per sq ft (£390 per m^2), respectively. The December 2011 ERV was £28.50 per sq ft (£305 per m^2). Lease incentives equate to a four month rent-free period. In August TelecityGroup extended its leases on 68,700 sq ft (6,380m^2) from five to 25 years, with rent increases from £1.8m pa to £2.3m pa in 2017, equating to £45 per sq ft (£485 per m^2) on the best space, with thereafter a 2.5% pa increase compounded every five years. Had these transactions been taken into account in the half year valuation, they would have provided a valuation uplift of 15.6% on this property, equivalent to 12p per share, whereas only a 5.9% uplift has been recognised in the first half.

- Charlotte Building, 17 Gresse Street W1 – following a lease surrender on 6,800 sq ft (630m^2), we immediately re-let the space to The BIO Agency, an existing tenant. They are relocating from our nearby 75 Wells Street property and tripling their floorspace. The new rent of £0.4m pa reflects £57.50 per sq ft (£620 per m^2) which is 32% higher than the previous income on this space and 15% higher than the December 2011 ERV. As stated above, we expect to receive back a further 5,000 sq ft (460m^2) at this building in 2013. This is currently let at an average rent of £44 per sq ft (£475 per m^2).

- 8 Fitzroy Street W1 – in July at this 148,000 sq ft (13,750m^2) building let to Arup until 2033, we replaced five-yearly upward-only rent reviews to an annual stepped increase taking the rent from £6.2m pa (£45 per sq ft/ £485 per m^2 on a typical floor) to £8.4m pa (£60 per sq ft/ £645 per m^2) in 2021. There is then an upward-only, open-market rent review with the income increasing 2.5% pa compounded thereafter, giving a rent by expiry of at least £11.0m pa (£80 per sq ft/ £860 per m^2). Valued on a proforma basis, this would have provided a valuation uplift of 5% on this property, equivalent to 6p per share.

Strong tenant retention was maintained in 2012. In the half year, £7.7m pa of the portfolio's rental income (6.7% of the total) was subject to lease expiries and breaks. After excluding space taken back for identified projects, representing £1.2m pa, 91% of this income was retained and 4% re-let during the half year. The Group concluded 26 rent reviews and lease renewals in the first half at a combined rent of £4.1m pa, an uplift of 3.0% on the previous income.

Rent collection remained prompt with 97% of rent collected within 14 days of the due date for the opening half of the year (2011 average: 98%).

Projects

The Group continues to be active on all aspects of its development programme. Two major new projects have been started in 2012 and, after allowing for the enlarged refurbishment in Phase 2 of the works at 1 & 2 Stephen Street W1, the active programme has increased 67% to 0.55 million sq ft (51,100m^2). Four major planning consents were obtained in the first half which, excluding Page Street SW1 (on site) and Riverwalk House SW1 (now sold), increase the consented schemes by nearly 25%. The future pipeline now stands at 1.5 million sq ft (138,000m^2) of consented schemes with appraisal studies ongoing on over 0.7 million sq ft (68,100m^2). The Group's on-site and pipeline projects now total 2.8 million sq ft (257,200m^2). Of this, over 0.4 million sq ft (39,190m^2) of projects are due to commence in 2013. Although no major project completions occurred in the half-year, the Group delivered 67,000 sq ft (6,220m^2) of various smaller projects with an ERV of £2.5m. Of these smaller projects, 74% have already been let.

Current projects

Since the year end we have started two new major projects and significantly increased one phased refurbishment. We are now on site at seven projects with a total proposed floorspace of 550,000 sq ft (51,100m^2). These involve an estimated capital expenditure to complete of £133m. Overall, the estimated net rental value of these projects is £23.9m pa, compared with current income of £5.2m, with 35% of the floorspace pre-let or under offer.

Five of the projects are schemes where we are redeveloping or refurbishing the whole of the building in one phase:

- 1 Page Street SW1 – the entire 127,000 sq ft (11,800m^2) office building has been pre-let to Burberry and is due to complete in mid-2013.

- Buckley Building, 49 Clerkenwell Green EC1 – this 85,000 sq ft (7,900m^2) office refurbishment and extension is progressing well and is scheduled to finish in the final quarter of 2012. It is well located close to the Farringdon Crossrail interchange. Derwent London currently receives £2.5m pa from this property.

- 4 & 10 Pentonville Road N1 – this 55,000 sq ft (5,110m^2) office refurbishment is due to be completed shortly. Over half of the building, totalling 32,100 sq ft (2,980m^2), is under offer.

- Turnmill, 63 Clerkenwell Road EC1 – the new-build 70,000 sq ft (6,500m^2) office and retail development commenced in April with completion due in mid-2014. It is located in the heart of Clerkenwell next to the Farringdon Crossrail interchange.

- 40 Chancery Lane WC2 – work has now started on this 100,000 sq ft (9,300m^2) new-build development following the regearing of the headlease in February. This is on a 128-year term at a ground rent of 18% of rental income, with the opportunity to buy this down to 10%. Completion is targeted for the end of 2014.

The other two projects involve phased refurbishments:

- 1 & 2 Stephen Street W1, formerly Central Cross (Phases 1 & 2) – Phase 1 of the refurbishment at this 255,000 sq ft (23,690m^2) mixed-use building involves remodelling the office entrance and creates 23,000 sq ft (2,140m^2) of new ground and lower floor space. Two thirds of this phase has been pre-let. Following a lease surrender, Phase 2, the refurbishment of a number of office floors, has been trebled to 63,000 sq ft (5,850m^2). Both phases will be delivered during 2013.

- Morelands Buildings, 5-27 Old Street EC1 – a 27,000 sq ft (2,510m^2) office refurbishment and roof extension is the latest phase of works at this 90,000 sq ft (8,400m^2) building. Two thirds of the space is pre-let and works are due to finish at the end of this year.

Elsewhere, we continue to invest in the portfolio through smaller projects. As at 30 June 2012 these totalled approximately 50,000 sq ft (4,600m^2), and have an ERV of £1.6m pa. In addition we have commenced a 'light touch' office and warehouse upgrade on approximately 150,000 sq ft (13,900m^2) at 132-142 Hampstead Road NW1. This follows the Group's decision to defer its major redevelopment due to the potential impact of HS2, the proposed high speed London to Birmingham rail link. We are targeting occupiers looking for short term space.

<u>Projects starting in 2013</u>

In 2013 we intend to start a major mixed-use redevelopment at 80 Charlotte Street W1, which will be one of the largest schemes in the core of the West End. This is located in one of our main operating areas, Fitzrovia, north of Oxford Street, where 35% of our assets are located. The main development occupies a 1.4 acre (0.6 hectare) site that will provide 323,000 sq ft (30,010m^2) of offices and 14,000 sq ft (1,300m^2) of private residential units. Our proposals are now in their final stages of design and, since receipt of planning permission in September 2011, we have been improving and refining our plans. This project also includes two nearby properties which will now deliver 12,000 sq ft (1,110m^2) of offices and 36,000 sq ft (3,340m^2) of residential space. Of the latter, 42% will be affordable housing. We are due to start on site in mid 2013 when the current leases expire with delivery in 2016. Capital expenditure is estimated at £150m overall.

Next year, the Group will be further increasing its residential exposure with the redevelopment of 96-98 Bishop's Bridge Road W2, a 21,400 sq ft (1,990m^2) residential and retail development in Westbourne Grove.

<u>Planning consents</u>

Four planning consents were obtained in the first half, totalling 600,000 sq ft (55,700m^2). Already half of these projects are either under construction or have been sold. The remaining projects add nearly 25% to the consented pipeline. Residential property represented 32% of the total consents received in the first half as we seek to take advantage of current demand in this sector.

- 1 Oxford Street W1 – this 275,000 sq ft (25,500m^2) mixed-use scheme on the corner of Oxford Street and Charing Cross Road, directly above Tottenham Court Road station, was granted planning permission in April. It is the Group's intention to exercise its option to acquire the site, which was compulsorily purchased from Derwent London by Crossrail in 2009. The station upgrade works are expected to complete in 2017. As this is held as an option, no revaluation uplift has been recognised in respect of this consent.

- 1 Page Street SW1 – a 127,000 sq ft (11,800m^2) office refurbishment and extension, which has been pre-let to Burberry, was approved in April.

- Riverwalk House and 232-242 Vauxhall Bridge Road SW1 – consent was received in March for a 148,000 sq ft (13,700m^2) luxury riverside residential development of 121 units at Riverwalk House and for the conversion of 232-242 Vauxhall Bridge Road to 27,000 sq ft (2,600m^2) of affordable housing. The properties were sold in July – see 'Acquisitions and disposals' section. Work is expected to start this year for completion in 2015 and we retain a profit overage.

- 96-98 Bishop's Bridge Road W2 – our plans for a 21,400 sq ft (1,990m^2) mixed-use scheme were approved in February. This comprises 16 residential units and 2,700 sq ft (250m^2) of retail space. Construction will start in early 2013.

In addition to the projects where we are on site, the Group's consented schemes, excluding those which we are starting in 2013, total around 1.1 million sq ft (100,200m^2) providing the foundations of a strong development pipeline in the years to come. These include major consents at 55-65 North Wharf Road W2 (313,000 sq ft or 29,100m^2) and City Road Estate EC1 (289,000 sq ft or 26,800m^2).

Planning applications

Following planning submissions earlier in the year, decisions are awaited at two Fitzrovia projects:

- 18-30 Tottenham Court Road W1, formerly Central Cross retail – this proposal extends the retail units on Tottenham Court Road from 24,000 sq ft (2,230m^2) to 41,000 sq ft (3,810m^2). The new frontage, which is over 400 ft (120m) in length, will transform this retail destination and make an important contribution to the area's regeneration. The proposed Crossrail hub at Tottenham Court Road station will further improve the location and is less than 500 feet (150m) away. Subject to planning, commencement is anticipated in 2014.

- 73 Charlotte Street W1 – a mixed-use development of 15,500 sq ft (1,440m^2) comprising 11 residential units, two of which will be affordable, and 1,900 sq ft (180m^2) of offices. Work could start next year subject to planning.

Appraisal studies

In March, Derwent London and Grosvenor announced a joint venture to work towards the redevelopment of 1-5 Grosvenor Place SW1. Having acquired a number of leasehold buildings here over a number of years, a unique 1.5 acre (0.6 hectare) site has been assembled and this collaboration has unlocked a major prime development opportunity. Further details of the structure of the joint venture are given below in 'Acquisitions and disposals'. The property is currently fully let on a short-term basis and the joint venture is finalising a professional team to evaluate the options for a mixed-use development at this prestigious Belgravia location. We intend to submit a planning application next year.

In addition there are a number of other properties which are currently subject to appraisal studies, such as Network Building W1, Balmoral Grove Buildings N7 and 19-35 Baker Street W1 which is held in our joint venture with the Portman Estate.

Acquisitions and disposals

In the current environment, our balanced portfolio with a high proportion of future regeneration opportunities should deliver strong returns. As a result we can be disciplined about acquisitions, and buy selectively where we see value.

During the half year, we acquired an ideal 'Derwent building' – an office let off low average rents that has scope for adding value through asset management and refurbishment. Francis House, 11 Francis Street SW1 was acquired for £29.1m before costs. This 57,000 sq ft (5,300m^2) freehold building adjoins our Greencoat & Gordon House and 6-8 Greencoat Place properties. Together, these buildings total 218,700 sq ft (20,320m^2) and occupy 1.2 acres (0.5 hectares) constituting the majority of an island site. Francis House is let to Channel Four Television under a lease expiring in February 2020. The total annual income is £1.6m until February 2015, when there is a fixed rent increase to £1.7m pa. The net initial yield is 5.1%, rising to 5.4%. The 42,600 sq ft (3,960m^2) of offices are let off an average rent of £37 per sq ft (£400 per m^2) with the balance of the building being storage. This level offers further reversionary potential as we have achieved lettings of over £50 per sq ft (£540 per m^2) next door.

We also selectively recycle the portfolio. We completed £94.1m of sales in July 2012, bringing the total for the year to date to £161.5m at an average disposal yield of 2.9%. In the first half, the leases on 1-5 Grosvenor Place SW1 were regeared into a new 150-year term at a ground rent of 5% of rental income for £7.3m before costs. Simultaneously Derwent London sold 50% of its ownership to Grosvenor, the freeholder, and received £67.3m before costs.

The post half year sales achieved 7.5% above their December 2011 book value and gave rise to an overall surplus of £6.5m. These comprised:

- Riverwalk House & 232-242 Vauxhall Bridge Road SW1 – these two properties in Victoria were sold, following the receipt of planning permission, to Ronson Capital Partners for £77.3m before costs. The Group maintains an interest in the proposed development through a profit overage. This disposal represents an excellent return for the Group with the combined valuation having increased by 75% over the last three years.

- Triangle Centre, Bishopbriggs, Scotland – this 75,500 sq ft (7,010m^2) shopping centre, located just to the north of Glasgow, was sold for £16.8m before costs. The centre, a non-core asset, was let at £1.3m pa and was sold at 6.8% above the December 2011 book value.

Financial review

EPRA adjusted net asset value per share increased during the first half of 2012 to 1,770p from 1,701p at 31 December 2011. This represents an increase of 4.1% over six months and an increase of 9.2% from 1,621p at 30 June 2011.

The growth in net asset value was largely due to the portfolio valuation surplus of £77.6m or 76.1p per share, driven mainly by underlying rental growth. This is stated net of lease incentive adjustments of £4.9m. While this is lower than the exceptional £118.5m surplus reported in the first half of 2011 when the market was recovering sharply, it exceeds the £66.0m surplus in the second half of 2011, highlighting the recent strength of our particular markets and the impact of our major development projects.

The value of the Group's property portfolio at fair value increased to £2,728.4m at 30 June compared with £2,646.5m at the start of the year. This takes account of the disposal of half of the Grosvenor Place property for £67.3m, before costs, but also recognises £38.6m of property acquisitions, £8.0m of which relates to the new 150-year Grosvenor Place headlease, inclusive of £0.7m of transaction costs, and the purchase of Francis House. In addition, the Group incurred £27.7m of capital expenditure on projects in the first half, £2.2m of which was capitalised interest.

The increase in EPRA like-for-like gross rental income, which shows the underlying performance of the portfolio after stripping out acquisitions, disposals and developments, was 8.2% compared with the first half of 2011 and 3.2% compared with the second half. Reported gross property income was £62.3m in the six months to June 2012, marginally lower than the equivalent figure in 2011 of £62.5m due to the higher proportion of development and refurbishment activity in the portfolio. Lettings and rent reviews added £6.2m to rental income compared to the first half of 2011 but net property disposals reduced income by £2.1m. There were £2.0m of breaks and expiries and £1.9m of rent was removed as new schemes commenced. The balance comprised surrender premiums which were £0.4m lower than in 2011. Net property income for the period increased marginally to £58.1m from £57.8m a year earlier as irrecoverable costs and premiums paid to tenants were lower, offset to some extent by a reduction in rates credits of £1.3m compared to the first half of 2011.

Administrative expenses increased to £12.0m for the first half of 2012 compared with £11.2m for the first half of 2011 and £11.5m for the second half. This increase is largely due to higher staff costs. Finance costs, stated after capitalised interest of £2.2m in the first half of 2012, have fallen to £21.0m from £21.5m in the first half of 2011 and £22.8m in the second half. This reduction came from lower interest costs on drawn loan amounts offset by higher non-utilisation fees and amortisation of arrangement fees on facilities signed in the last year or so.

Though it is not reflected in EPRA profit or recurring earnings, the previously reported £6.3m cost of unwinding £130m of swaps in January 2012 has reduced EPRA net asset value as at 30 June 2012. Those instruments, which were due to expire in March 2013, were arranged in 2006 when rates were much higher than today. The mark-to-market movement on other interest rate swaps during the period was a gain of £1.2m.

The income statement shows a profit on disposal of investment of £3.9m relating to the realisation of exchange gains on the liquidation of our last US subsidiary during the first half of 2012. The company had been inactive for several years and, as an equal and opposite amount passes through the statement of comprehensive income, there is no impact on EPRA net asset value or recurring earnings.

Though the Group has been increasing the proportion of properties subject to development and refurbishment, our emphasis on a balanced portfolio has kept recurring income levels at a similar level to 2011. EPRA profit before taxation for the half year was almost unchanged at £26.5m compared with £26.6m in the first half of 2011. After adjusting for the impact of rates credits and foreign exchange movements, underlying profit before tax was £26.1m for the period, 4.4% higher than the first half of 2011. The profit before tax, which includes asset and derivative revaluation movements as well as the profit on disposals, was £102.4m for the first six months of 2012. This compares with £173.3m in the equivalent period in 2011 when property revaluation gains were higher, and £59.7m in the second half of 2011.

Financing, net debt and cash flow

With the recent announcement of a new £83m secured fixed rate loan from Cornerstone, part of the Mass Mutual Financial Group, Derwent London completed the refinancing of facilities that were due to expire in 2013. Most of the refinancing had already been completed by January 2012 with £425m of fully revolving bank facilities extended or refinanced with relationship banks, the details of which were set out in the 2011 Report and Accounts.

The new loan, which is the first transaction entered into by Cornerstone in the UK, is secured on two properties in Fitzrovia and is fixed at 3.99% until October 2024, equivalent to a margin of 210 basis points over the appropriate gilt yield. The initial loan-to-value ratio was 48.3%, the covenant is set at 70% and there is no amortisation throughout the period to expiry. This new loan facility further diversifies our sources of funding, bringing the proportion of Derwent London's borrowing provided by banks down to below 50% of the total. The equivalent proportion at the beginning of 2011 was 80%. It also has the benefit of lengthening the weighted average term to debt maturity to 6.8 years. At the point this loan was drawn on 1 August, the residual £150m facility arranged in 2006 was cancelled. At the same time, a cost of £0.6m was incurred on the termination of a £65m interest rate swap running to March 2013.

As anticipated, the £32.5m unsecured 'loan note' facility which was due to expire in June 2012 was cancelled during the first half. The Group's overdraft facility was also reduced to £2.5m from £10.0m in July 2012; these steps have been taken to reduce the level of undrawn facilities and non-utilisation fees payable.

The level of available facilities was £410m at 30 June 2012 and, after taking account of property sales at Riverwalk House, Vauxhall Bridge Road and the Triangle Centre in Scotland, increased to £414m at 1 August 2012 despite the reduction in total facilities. The equivalent figure at 31 December 2011 was £469m. In addition, the Group had £595m of uncharged properties at 30 June 2012 and £544m at 1 August 2012, compared with £589m at the last year end. Therefore planned capital expenditure on the committed development pipeline is well covered by our existing unused facilities and uncharged assets.

Net debt at 30 June 2012 increased slightly to £870.2m from £864.5m at the last year end, but balance sheet gearing fell to 48.5% from 50.4% over the same period. The loan-to-value ratio at 30 June 2012 fell correspondingly to 31.4% from 32.0% at the last year end and, following the property disposals totalling £94.1m since the half year, is now likely to be close to 30%.

Interest cover remains strong and has increased to 356% on a gross basis from 312% in the first half of 2011 and 307% for the whole of 2011.

As a result of the £130m reduction in interest rate swaps in January 2012, the proportion of fixed and hedged debt fell to 90% at 30 June 2012 from 98% at the year end. This takes account of a new £70m swap to April 2019 that was arranged in January 2012 at a rate just below 2.0%. Although margins on the new loans were higher than before, the weighted average cost of debt fell to 4.72% on an IFRS basis as at the half year and to 4.46% on a cash basis (ignoring the additional 'non cash' interest charge booked on the convertible bonds). The impact of the latest refinancing is to increase the weighted average cost by about 21 basis points. The equivalent figures at December 2011 were 4.91% and 4.65%, respectively.

Dividend

As stated earlier, Derwent London's financial position strengthened again over the last six months. We have moved forward with our development pipeline but have also been able to maintain recurring income. We are therefore increasing the interim dividend by 5.3% from 9.45p to 9.95p per share, at which level the dividend is comfortably covered. We believe this growth rate is appropriate given the scale of our committed development programme. The dividend will be paid as a Property Income Distribution on 1 November 2012 to shareholders on the register at the close of business on 28 September 2012. A scrip alternative is again being offered.

Board

The Board set out in the 2011 Report and Accounts that it intends to seek the appointment of two independent non-executive directors as part of an orderly process of refreshment. As part of this process, we are delighted to announce the appointment of Simon Fraser as a non-executive director with effect from 1 September 2012. Simon was a Managing Director and Co-Head of the Corporate Broking business at Bank of America Merrill Lynch until his retirement at the end of 2011 and will bring extensive financial services experience and knowledge to the Board.

We also stated in the 2011 Report and Accounts that both Simon Neathercoat and John Ivey would retire by the end of 2013. With the appointment referred to above, we can announce that Simon Neathercoat will retire from the Board on 31 December 2012. Simon has served on the Board since 1999 and throughout this period has always provided excellent, independent counsel and sound advice to the Board. We would like to thank him for his wisdom, commitment and contribution over the last 13 years.

Outlook

Derwent London operates in one of the most dynamic real estate markets in the world. Supply of good quality office space in London is constrained and we are seeing strong tenant demand for our brand of space, particularly from the TMT sector. In these uncertain times, commercial real estate in central London continues to be viewed as a 'safe haven' for international investors.

We remain confident that, if current market conditions persist in central London, the level of rental growth experienced in our portfolio in the first half will be sustained throughout the rest of the year. In addition we expect our valuation yields to remain firm in the months to come.

Derwent London is a well-financed business, with regeneration opportunities both in the short term and over the years to come. Given the favourable balance of occupier demand and supply we are pushing forward with the execution of our development pipeline. At the same time we are managing our portfolio to retain income for as long as possible up to the start of development.

The pipeline is focused on mid-market rents, in areas where there are transformational transport links such as Crossrail and in the vibrant London villages of the future. Together with the good design that is so central to the spaces that we provide, we believe these factors will continue to attract a range of tenants, including those from the creative industries which are an important part of the London economy. We consider that these components, combined with the management team's experience and skill, provide excellent prospects for future growth.

Robert A. Rayne	John D. Burns
Chairman	Chief Executive Officer

22 August 2012

Responsibility statement

The Directors confirm to the best of their knowledge:

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

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

The principal risks and uncertainties facing the business are discussed in note 24.

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

On behalf of the board

John D. Burns	Damian M.A. Wisniewski
Chief Executive Officer	Finance Director

22 August 2012

GROUP CONDENSED INCOME STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.2012 £m**	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Gross property income		**62.3**	62.5	125.5
Other income		**0.9**	1.0	2.0
Total income	4	**63.2**	63.5	127.5
Property outgoings		**(5.1)**	(5.7)	(9.8)
Net property income		**58.1**	57.8	117.7
Administrative expenses		**(12.0)**	(11.2)	(22.7)
Revaluation surplus		**77.3**	117.3	170.1
Profit on disposal of investment properties	5	**0.2**	21.5	36.1
Profit on disposal of investment	6	**3.9**	-	-
Profit from operations		**127.5**	185.4	301.2
Finance income	7	**0.6**	0.7	1.1
Finance costs	7	**(21.0)**	(21.5)	(44.3)
Movement in fair value of derivative financial instruments		**1.2**	7.8	(26.5)
Financial derivative termination costs		**(6.3)**	-	-
Share of results of joint ventures	8	**0.4**	0.9	1.5
Profit before tax		**102.4**	173.3	233.0
Tax credit	9	**0.4**	0.5	1.3
Profit for the period		**102.8**	173.8	234.3
Attributable to:				
- Equity shareholders		**100.8**	169.3	228.3
- Minority interest		**2.0**	4.5	6.0
		102.8	173.8	234.3
Earnings per share	10	99.08p	167.26p	225.20p
Diluted earnings per share	10	94.55p	164.68p	217.67p

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	**Half year to 30.06.2012**	Half year to 30.06.2011	Year to 31.12.2011
		£m	£m	£m
Profit for the period		**102.8**	173.8	234.3
Actuarial losses on defined benefit pension scheme		**(1.5)**	(0.6)	(3.5)
Revaluation surplus of owner-occupied property		**0.3**	1.2	2.0
Deferred tax on revaluation surplus	9	**0.4**	(0.2)	0.7
Foreign currency translation		**(0.3)**	(0.2)	-
Reclassification of exchange differences to income statement	6	**(3.9)**	-	-
Other comprehensive (expense)/income		**(5.0)**	0.2	(0.8)
Total comprehensive income relating to the period		**97.8**	174.0	233.5
Attributable to:				
- Equity shareholders		**95.8**	169.5	227.5
- Minority interest		**2.0**	4.5	6.0
		97.8	174.0	233.5

GROUP CONDENSED BALANCE SHEET (UNAUDITED)

	Note	**30.06.2012 £m**	30.06.2011 £m	31.12.2011 £m
Non-current assets				
Investment property	1, 11	**2,565.9**	2,496.5	2,444.9
Property, plant and equipment	1, 12	**19.8**	17.9	19.4
Investments		**10.0**	9.2	9.7
Pension scheme surplus		**-**	0.2	-
Other receivables	13	**58.7**	50.2	55.4
		2,654.4	2,574.0	2,529.4
Current assets				
Trade and other receivables	14	**47.3**	45.6	45.0
Cash and cash equivalents		**2.9**	7.3	3.5
		50.2	52.9	48.5
Non-current assets held for sale	15	**92.6**	45.4	137.5
Total assets		**2,797.2**	**2,672.3**	**2,715.4**
Current liabilities				
Bank overdraft and loans	17	**95.0**	40.0	32.5
Derivative financial instruments	17	**0.6**	-	-
Trade and other payables	16	**70.0**	70.4	70.9
Corporation tax liability		**1.7**	2.7	1.3
Provisions		**1.2**	2.3	1.6
		168.5	115.4	106.3
Non-current liabilities				
Borrowings	17	**778.1**	871.8	835.5
Derivative financial instruments	17	**50.2**	17.6	51.9
Provisions		**0.2**	0.5	0.5
Pension scheme deficit		**3.0**	-	1.5
Deferred tax	18	**4.3**	5.6	5.2
		835.8	895.5	894.6
Total liabilities		**1,004.3**	1,010.9	1,000.9
Total net assets		**1,792.9**	1,661.4	1,714.5
Equity				
Share capital		**5.0**	5.0	5.0
Share premium		**164.5**	160.6	162.9
Other reserves		**932.2**	933.6	936.6
Retained earnings		**637.4**	511.9	558.2
Equity shareholders' funds		**1,739.1**	1,611.1	1,662.7
Minority interest		**53.8**	50.3	51.8
Total equity		**1,792.9**	1,661.4	1,714.5

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2012	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
Total comprehensive income for the period	-	-	(3.5)	99.3	95.8	2.0	97.8
Share-based payments expense transferred to reserves	-	-	1.4	-	1.4	-	1.4
Transfer between reserves in respect of share-based payments	-	-	(2.2)	2.2	-	-	-
Deferred bonus award			(0.1)		(0.1)		(0.1)
Premium on issue of shares	-	1.6	-	-	1.6	-	1.6
Dividends paid	-	-	-	(22.3)	(22.3)	-	(22.3)
At 30 June 2012	**5.0**	**164.5**	**932.2**	**637.4**	**1,739.1**	**53.8**	**1,792.9**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2011	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7
Total comprehensive income for the period	-	-	0.8	168.7	169.5	4.5	174.0
Share-based payments expense transferred to reserves	-	-	1.5	-	1.5	-	1.5
Transfer between reserves in respect of share-based payments	-	-	(2.1)	2.1	-	-	-
Issue of convertible bonds	-	-	9.4	-	9.4	-	9.4
Premium on issue of shares	-	2.4	-	-	2.4	-	2.4
Dividends paid	-	-	-	(20.5)	(20.5)	(0.1)	(20.6)
At 30 June 2011	5.0	160.6	933.6	511.9	1,611.1	50.3	1,661.4

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2011	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7
Total comprehensive income for the year	-	-	2.7	224.8	227.5	6.0	233.5
Share-based payments expense transferred to reserves	-	-	2.4	-	2.4	-	2.4
Transfer between reserves in respect of performance share plan	-	-	(1.9)	1.9	-	-	-
Issue of convertible bonds		-	9.4	-	9.4	-	9.4
Premium on issue of shares	-	4.7	-	-	4.7	-	4.7
Dividends paid	-	-	-	(30.1)	(30.1)	(0.1)	(30.2)
At 31 December 2011	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5

GROUP CONDENSED CASH FLOW STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.2012 £m**	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Operating activities				
Cash received from tenants		**59.4**	61.2	116.8
Direct property expenses		**(5.4)**	(5.7)	(13.1)
Cash paid to and on behalf of employees		**(10.3)**	(10.5)	(14.4)
Other administrative expenses		**(2.9)**	(3.0)	(5.2)
Interest received		**0.1**	-	-
Interest paid		**(17.1)**	(19.0)	(36.5)
Other finance costs		**(1.8)**	(0.8)	(1.8)
Other income		**0.9**	0.8	2.1
Tax received/(paid) in respect of operating activities		**0.3**	(0.7)	(0.7)
Net cash from operating activities		**23.2**	22.3	47.2
Investing activities				
Acquisition of investment properties		**(37.1)**	(91.3)	(91.6)
Capital expenditure on investment properties		**(29.0)**	(16.5)	(42.6)
Disposal of investment properties		**66.8**	79.0	131.5
Purchase of property, plant and equipment		**(0.3)**	(0.1)	(0.2)
Distributions received from joint ventures		**0.2**	-	0.3
Advances to minority interest holder		**(2.4)**	(0.8)	(0.8)
Tax paid in respect of investing activities		**(0.5)**	-	-
Net cash used in investing activities		**(2.3)**	(29.7)	(3.4)
Financing activities				
Net proceeds of bond issue		**-**	170.6	170.2
Repayment of revolving bank loan		**-**	-	(75.0)
Drawdown of new revolving bank loan		**73.0**	-	-
Net movement in other revolving bank loans		**89.0**	(216.0)	(179.1)
Drawdown of non-revolving bank loans		**-**	67.3	67.5
Repayment of non-revolving bank loans		**(156.4)**	-	-
Financial derivative termination costs		**(6.3)**	-	-
Repayment of loan notes		**(1.1)**	-	-
Dividends paid to minority interest holder		**-**	-	(0.1)
Dividends paid	19	**(19.7)**	(16.3)	(25.4)
Net cash (used in)/from financing activities		**(21.5)**	5.6	(41.9)
(Decrease)/increase in cash and cash equivalents in the period		**(0.6)**	(1.8)	1.9
Cash and cash equivalents at the beginning of the period		**3.5**	1.6	1.6
Cash and cash equivalents at the end of the period	22	**2.9**	(0.2)	3.5

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information for the half years ended 30 June 2012 and 30 June 2011 have neither been subject to an audit nor a review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board. The comparative financial information presented herein for the year ended 31 December 2011 does not constitute full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's annual report and accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information in these condensed financial statements is that of the holding company and all of its subsidiaries (the "Group") together with the Group's share of its joint ventures. It has been prepared in accordance with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual report and accounts for the year ended 31 December 2011 which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The accounting policies applied by the Group in these condensed financial statements are the same as those applied by the Group in its financial statements for the year ended 31 December 2011 with the exception of the new standards adopted during 2012.

New standards adopted during the year
The following amendments are effective for the first time for the Group's 30 June 2012 period end:

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

These had no material impact on the financial statements.

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

IFRS 9 Financial Instruments;
IFRS 12 Disclosure of Interests in Other Entities;
IFRS 13 Fair Value Measurement;
IAS 1 Presentation of Financial Statements (amendment);
IAS 19 Employee Benefits (amendment);
IAS 27 Separate Financial Statements;
IAS 28 Investments in Associates and Joint Ventures;
IAS 32 Financial Instruments: Presentation (amendment); and
Annual Improvements to IFRSs (2009-2011 Cycle).

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

2. Significant judgments, key assumptions and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements. These are the same policies identified at the previous year end and a full discussion of these policies is included in the 2011 financial statements.

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

3. Segmental reporting

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

The internal financial reports received by the Group's executive Board contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the adjusted earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 10. Additionally, information is provided to the executive Board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner occupied property and assets held for sale and comprises 92% office buildings* by value (30 June 2011: 92%; 31 December 2011: 92%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 8% (30 June 2011: 8%; 31 December 2011: 8%) 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 accounted for more than 10% of gross property income and no individual property accounted for more than 10% of the value of the property portfolio in either the year ended 31 December 2011, the half year to 30 June 2011, or the half year to 30 June 2012.

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

Property portfolio (see note 11)

	Carrying value		
	30.06.2012	30.06.2011	31.12.2011
	£m	£m	£m
Office buildings	**2,473.8**	2,347.1	2,397.1
Other	**202.0**	211.2	202.4
	2,675.8	2,558.3	2,599.5

	Fair value		
	30.06.2012	30.06.2011	31.12.2011
	£m	£m	£m
Office buildings	**2,521.7**	2,384.5	2,439.3
Other	**206.7**	215.7	207.2
	2,728.4	2,600.2	2,646.5

Gross property income

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Office buildings	**58.0**	57.0	115.5
Other	**4.3**	5.5	10.0
	62.3	62.5	125.5

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

Property portfolio

	Carrying value		
	30.06.2012	30.06.2011	31.12.2011
	£m	£m	£m
West End central	**1,818.3**	1,775.1	1,786.3
West End borders	**233.5**	198.3	220.3
City borders	**515.6**	475.5	482.9
Provincial	**108.4**	109.4	110.0
	2,675.8	2,558.3	2,599.5

	Fair value		
	30.06.2012	30.06.2011	31.12.2011
	£m	£m	£m
West End central	**1,841.2**	1,793.9	1,806.7
West End borders	**247.5**	205.3	231.4
City borders	**526.7**	487.3	493.7
Provincial	**113.0**	113.7	114.7
	2,728.4	2,600.2	2,646.5

Gross property income

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
West End central	**39.9**	42.0	82.5
West End borders	**5.8**	4.0	9.2
City borders	**13.5**	13.4	27.5
Provincial	**3.1**	3.1	6.3
	62.3	62.5	125.5

4. Total income

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Rental income	**62.3**	62.1	124.1
Surrender premiums	**0.1**	0.4	2.4
Write-off of associated rents previously recognised in advance	**(0.1)**	-	(1.0)
	-	0.4	1.4
Gross property income	**62.3**	62.5	125.5
Other income	**0.9**	1.0	2.0
	63.2	63.5	127.5

Included within rental income is £1.2m (30 June 2011: £0.6m; 31 December 2011: £1.8m) of income which was derived from a lease of one of its buildings where the Group entered into an arrangement to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments).

5. Profit on disposal of investment properties

	Half year to 30.06.2012	Half year to 30.06.2011	Year to 31.12.2011
	£m	£m	£m
Gross disposal proceeds	**67.4**	79.0	132.5
Costs of disposal	**(0.3)**	(0.5)	(1.2)
Net disposal proceeds	**67.1**	78.5	131.3
Carrying value	**(67.2)**	(56.7)	(95.0)
Adjustment for rents recognised in advance	**(0.8)**	(0.3)	(0.2)
Movement in grossing up of headlease liability	**1.1**	-	-
	0.2	21.5	36.1

6. 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 has resulted in foreign exchange movements being reflected in the income statement. The net asset impact in each year has been effectively nil as there is 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 currency translation reserve has been reclassified to the income statement.

7. Finance income and costs

	Half year to 30.06.2012	Half year to 30.06.2011	Year to 31.12.2011
	£m	£m	£m
Finance income			
Return on pension plan assets	**0.3**	0.4	0.8
Foreign exchange gain	**0.3**	0.2	-
Other	**-**	0.1	0.3
	0.6	0.7	1.1

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Finance costs			
Bank loans and overdraft	**10.5**	14.3	27.0
Non-utilisation fees	**1.8**	0.7	1.9
Secured bonds	**5.7**	5.7	11.4
Unsecured convertible bonds	**3.3**	0.5	3.8
Amortisation of issue and arrangement costs	**1.7**	0.8	2.0
Amortisation of the fair value of the secured bonds	**(0.4)**	(0.4)	(0.8)
Finance lease costs	**0.2**	0.2	0.5
Pension interest costs	**0.3**	0.3	0.6
Other	**0.1**	0.2	0.1
Gross interest costs	**23.2**	22.3	46.5
Less: interest capitalised	**(2.2)**	(0.8)	(2.2)
	21.0	21.5	44.3

Interest of £2.2m (30 June 2011: £0.8m; 31 December 2011: £2.2m) has been capitalised on development projects, in accordance with IAS 23, Borrowing Costs, using the Group's average cost of borrowing during each quarter. Total interest paid to 30 June 2012 was £19.3m (30 June 2011: £19.8m; 31 December 2011: £38.5m) of which £2.2m (30 June 2011: £0.8m; 31 December 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 (30 June 2011: £0.2m; 31 December 2011: £nil) resulted from the translation of an intercompany loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement was minimal as there is an offsetting entry in equity (see Group statement of comprehensive income). The US subsidiary was liquidated in March 2012 (see note 6).

8. Share of results of joint ventures

	Half year to 30.06.2012	Half year to 30.06.2011	Year to 31.12.2011
	£m	£m	£m
Revaluation surplus	**-**	0.3	0.9
Other profit from operations after tax	**0.4**	0.6	0.6
	0.4	0.9	1.5

9. Tax credit

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Corporation tax charge			
UK corporation tax and income tax on profit for the period	**(0.2)**	(0.3)	(0.5)
Other adjustments in respect of prior years' tax	**0.1**	0.3	1.8
	(0.1)	-	1.3
Deferred tax credit			
Origination and reversal of temporary differences	**0.2**	-	(0.4)
Adjustment for changes in estimates	**0.3**	0.5	0.4
	0.5	0.5	-
Total tax credit in the income statement	**0.4**	0.5	1.3

In addition, £0.4m of deferred tax income (half year to 30 June 2011: £0.2m charge; year to 31 December 2011: £0.7m income) was recognised in the Group statement of comprehensive income relating to revaluation of the owner-occupied investment property.

The effective rate of tax for 2012 is lower (half year to 30 June 2011: lower; year to 31 December 2011: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Profit before tax	**102.4**	173.3	233.0
Expected tax charge based on the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	**(25.1)**	(45.9)	(61.7)
Difference between tax and accounting profit on disposals	**1.0**	5.7	9.6
REIT exempt income	**2.7**	4.1	7.6
Expenses and fair value adjustments not deductible/(allowable) for tax purposes	**1.9**	3.9	(3.2)
Revaluation surplus attributable to REIT properties	**19.0**	30.1	44.5
Capital allowances	**1.5**	1.8	3.8
Other	**(0.7)**	0.5	(1.1)
Tax credit/(charge) on current period's profit	**0.3**	0.2	(0.5)
Adjustments in respect of prior years' tax	**0.1**	0.3	1.8
	0.4	0.5	1.3

10. Profit before tax, earnings and net asset value per share

	Earnings per share measures			Net asset value per share measures		
	Weighted average for the period ended			At period ended		
	30.06.12 '000	30.06.11 '000	31.12.11 '000	**30.06.12 '000**	30.06.11 '000	31.12.11 '000
Number of shares						
For use in basic measures	**101,736**	101,218	101,375	**101,962**	101,480	101,641
Dilutive effect of convertible bonds	**7,876**	1,225	4,587	**-**	-	-
Dilutive effect of share-based payments	**493**	669	667	**508**	682	656
For use in diluted earnings per share	**110,105**	103,112	106,629	**102,470**	102,162	102,297
Less dilutive effect of convertible bonds	**(7,876)**	(1,225)	(4,587)	**-**	-	-
For use in other diluted measures	**102,229**	101,887	102,042	**102,470**	102,162	102,297

On 2 June 2011, the Group issued £175m of unsecured convertible bonds. The current conversion price of the bonds is £22.22 and the share price at 30 June 2012 was £18.53. Although it is not expected that the bonds would be converted at this share price, the dilutive effect of these shares is required to be recognised in accordance with IAS 33. For the period to 30 June 2012, 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.

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for half year ended 30 June 2012		104.1		94.55
Interest effect of dilutive convertible bonds		(3.3)		
Undiluted profit/earnings	102.4	100.8	99.08	
Adjustment for:				
Disposal of properties	(0.2)	(0.2)		
Disposal of investment	(3.9)	(3.9)		
Group revaluation surplus	(77.3)	(77.9)		
Fair value movement in derivative financial instruments	(1.2)	(1.2)		
Financial derivative termination costs	6.3	6.3		
Movement in valuation of cash-settled share options	0.4	0.4		
Minority interests in respect of the above	-	1.2		
EPRA	**26.5**	**25.5**	**25.06**	**24.94**
Foreign exchange gain	(0.3)	(0.3)		
Rates credits	(0.1)	(0.1)		
Underlying	**26.1**	**25.1**	**24.67**	**24.55**

Diluted earnings for half year ended 30 June 2011		169.8		164.68
Interest effect of dilutive convertible bonds		(0.5)		
Undiluted profit/earnings	173.3	169.3	167.26	
Adjustment for:				
Disposal of properties	(21.5)	(21.5)		
Group revaluation surplus	(117.3)	(117.2)		
Joint venture revaluation surplus	(0.3)	(0.3)		
Fair value movement in derivative financial instruments	(7.8)	(7.8)		
Movement in valuation of cash-settled share options	0.2	0.2		
Minority interests in respect of the above	-	3.4		
EPRA	26.6	26.1	25.79	25.62
Foreign exchange gain	(0.2)	(0.2)		
Rates credits	(1.4)	(1.4)		
Underlying	25.0	24.5	24.21	24.05

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

	£m	Basic p	Diluted p
At 30 June 2012			
Net assets	1,792.9		
Minority interest	(53.8)		
Net assets attributable to equity shareholders	1,739.1	1,706	1,697
Adjustment for:			
Deferred tax on revaluation surplus	7.8		
Fair value of derivative financial instruments	50.8		
Fair value adjustment to secured bonds	18.2		
Minority interest in respect of the above	(2.4)		
EPRA adjusted net asset value	**1,813.5**	**1,779**	**1,770**
Adjustment for:			
Deferred tax on revaluation surplus	(7.8)		
Fair value of derivative financial instruments	(50.8)		
Mark-to-market of unsecured bonds	(11.7)		
Mark-to-market of secured bonds	(42.9)		
Minority interest in respect of the above	2.4		
EPRA triple net asset value	1,702.7	1,670	1,662

At 30 June 2011			
Net assets	1,661.4		
Minority interest	(50.3)		
Net assets attributable to equity shareholders	1,611.1	1,588	1,577
Adjustment for:			
Deferred tax on revaluation surplus	9.2		
Fair value of derivative financial instruments	17.6		
Fair value adjustment to secured bonds	19.0		
Minority interest in respect of the above	(0.6)		
EPRA adjusted net asset value	1,656.3	1,632	1,621
Adjustment for:			
Deferred tax on revaluation surplus	(9.2)		
Fair value of derivative financial instruments	(17.6)		
Mark-to-market of unsecured bonds	(7.6)		
Mark-to-market of secured bonds	(12.3)		
Minority interest in respect of the above	0.6		
EPRA triple net asset value	1,610.2	1,587	1,576

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

11. Investment property

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
Carrying value						
At 1 January 2012	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5
Acquisitions	30.6	8.0	38.6	-	-	38.6
Capital expenditure	21.3	3.7	25.0	-	0.5	25.5
Interest capitalisation	1.9	0.3	2.2	-	-	2.2
Additions	53.8	12.0	65.8	-	0.5	66.3
Disposals	-	-	-	-	(67.2)	(67.2)
Depreciation	-	-	-	(0.1)	-	(0.1)
Transfers	(16.4)	-	(16.4)	-	16.4	-
Revaluation	57.8	14.1	71.9	0.3	5.4	77.6
Movement in grossing up of headlease liabilities	-	(0.3)	(0.3)	-	-	(0.3)
At 30 June 2012	**2,164.1**	**401.8**	**2,565.9**	**17.3**	**92.6**	**2,675.8**
At 1 January 2011	1,965.7	407.6	2,373.3	15.2	-	2,388.5
Acquisitions	53.1	38.5	91.6	-	-	91.6
Capital expenditure	8.9	3.1	12.0	-	3.6	15.6
Interest capitalisation	0.7	0.1	0.8	-	-	0.8
Additions	62.7	41.7	104.4	-	3.6	108.0
Disposals	(56.7)	-	(56.7)	-	-	(56.7)
Transfers	(29.8)	-	(29.8)	-	29.8	-
Revaluation	91.1	14.2	105.3	1.2	12.0	118.5
At 30 June 2011	2,033.0	463.5	2,496.5	16.4	45.4	2,558.3
At 1 January 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

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
At 30 June 2012						
Fair value	2,218.6	399.9	2,618.5	17.3	92.6	2,728.4
Rents recognised in advance	(54.5)	(4.1)	(58.6)	-	-	(58.6)
Grossing up of headlease liabilities	-	6.0	6.0	-	-	6.0
Carrying value	**2,164.1**	**401.8**	**2,565.9**	**17.3**	**92.6**	**2,675.8**
At 30 June 2011						
Fair value	2,078.1	460.3	2,538.4	16.4	45.4	2,600.2
Rents recognised in advance	(45.1)	(4.2)	(49.3)	-	-	(49.3)
Grossing up of headlease liabilities	-	7.4	7.4	-	-	7.4
Carrying value	2,033.0	463.5	2,496.5	16.4	45.4	2,558.3

At 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 was revalued at 30 June 2012 by external valuers on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued the majority of the properties at £2,697.6m (30 June 2011: £2,569.2m; 31 December 2011: £2,615.2m) and other valuers valued the remaining properties at £30.8m (30 June 2011: £31.0m; 31 December 2011: £31.3m). Of the properties revalued by CBRE, £17.3m (30 June 2011: £16.4m; 31 December 2011: £17.1m) relating to owner-occupied property is included within property, plant and equipment and £92.6m (30 June 2011: £45.4m; 31 December 2011: £137.2m) was included within non-current assets held for sale.

At 30 June 2012, the historic cost of the property portfolio owned by the Group was £2,173.6m (30 June 2011: £2,144.4m; 31 December 2011: £2,132.0m).

The revaluation surplus in the income statement of £77.3m for the half year to 30 June 2012 (half year to 30 June 2011: £117.3m; year to 31 December 2011: £170.1m) included the revaluation of non-current assets held for sale of £5.4m (half year to 30 June 2011: £12.0m; year to 31 December 2011: £12.0m). The revaluation surplus for the owner-occupied property of £0.3m (half year to 30 June 2011: £1.2m; year to 31 December 2011: £2.0m) was included within reserves.

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Plant and equipment £m	Total £m
At 1 January 2012	17.1	1.5	0.8	19.4
Additions	-	-	0.4	0.4
Depreciation	(0.1)	-	(0.2)	(0.3)
Revaluation	0.3	-	-	0.3
At 30 June 2012	**17.3**	**1.5**	**0.9**	**19.8**
At 1 January 2011	15.2	0.7	0.8	16.7
Additions	-	-	0.1	0.1
Depreciation	-	-	(0.1)	(0.1)
Revaluation	1.2	-	-	1.2
At 30 June 2011	16.4	0.7	0.8	17.9
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	17.4	1.5	2.2	21.1
Accumulated depreciation	(0.1)	-	(1.2)	(1.3)
At 30 June 2012	**17.3**	**1.5**	**1.0**	**19.8**

Net book value				
Cost or valuation	16.4	0.7	3.0	20.1
Accumulated depreciation	-	-	(2.2)	(2.2)
At 30 June 2011	16.4	0.7	0.8	17.9
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

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 period end. The latest valuation was carried out in March 2011.

The historic cost of the artwork in the Group at 30 June 2012 was £1.5m (30 June 2011: £0.7m; 31 December 2011: £1.5m).

13. Other receivables (non-current)

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Accrued income	**53.3**	45.3	50.1
Other	**5.4**	4.9	5.3
	58.7	50.2	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 30 June 2012, the total rents recognised in advance were £58.6m (30 June 2011: £49.3m; 31 December 2011: £54.4m), with £5.3m of this amount (30 June 2011: £4.0m; 31 December 2011: £4.3m) included within trade and other receivables.

14. Trade and other receivables

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Trade receivables	**5.2**	7.3	9.0
Other receivables	**16.2**	13.5	15.2
Prepayments	**18.6**	20.3	16.5
Accrued income	**7.3**	4.5	4.3
	47.3	45.6	45.0

15. Non-current assets held for sale

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Investment properties (see note 11)	**92.6**	45.4	137.5

In 2011 the Group exchanged contracts to sell two properties with completion conditional on a suitable planning permission. This permission was received and the sales were completed in July 2012. Prior to 30 June 2012 the Group exchanged contracts to sell two properties in its Scottish portfolio, with completion occurring in July 2012. Therefore, at 30 June 2012, all four of these properties have been recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale.

16. Trade and other payables

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Trade payables	**5.9**	4.5	7.1
Other payables	**11.7**	13.2	10.9
Accruals	**16.1**	16.7	17.1
Deferred income	**36.3**	36.0	35.8
	70.0	70.4	70.9

17. Borrowings and derivative financial instruments

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Current liabilities			
Bank overdraft	**-**	7.5	-
Unsecured loans	**-**	31.4	31.4
Bank loans	**95.0**	-	-
Loan notes	**-**	1.1	1.1
	95.0	40.0	32.5
Non-current liabilities			
2.75% unsecured convertible bonds 2016	**163.7**	161.0	162.4
6.5% secured bonds 2026	**191.8**	192.6	192.2
Bank loans	**416.6**	510.8	473.5
Leasehold liabilities	**6.0**	7.4	7.4
	778.1	871.8	835.5
Derivative financial instruments - expiring in less than one year	**0.6**	-	-
Derivative financial instruments - expiring in greater than one year	**50.2**	17.6	51.9
	50.8	17.6	51.9
Total	**923.9**	929.4	919.9
Reconciliation to net debt:			
Total borrowings and derivative financial instruments	**923.9**	929.4	919.9
Less:			
Derivative financial instruments	**(50.8)**	(17.6)	(51.9)
Cash and cash equivalents	**(2.9)**	(7.3)	(3.5)
Net debt	**870.2**	904.5	864.5

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 were accounted for separately and the fair value of the debt component was 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 amortised over the life of the bond. The issue costs apportioned to equity of £0.2m are not amortised.

The fair value for the unsecured bonds shown in note 10 was determined by the ask-price of £108 per £100 as at 30 June 2012 (30 June 2011: £104; 31 December 2011: £99). The fair value of the secured bonds shown in note 10 was determined by the ask-price of £125 per £100 as at 30 June 2012 (30 June 2011: £107; 31 December 2011: £122).

18. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2012	8.8	(3.6)	5.2
Released during the period in other comprehensive income	(0.3)	-	(0.3)
Changes in tax rates in other comprehensive income	(0.1)	-	(0.1)
Released during the period in the income statement	-	(0.2)	(0.2)
Changes in tax rates in the income statement	(0.6)	0.3	(0.3)
At 30 June 2012	**7.8**	**(3.5)**	**4.3**
At 1 January 2011	8.9	(3.0)	5.9
Provided during the period in other comprehensive income	0.3	-	0.3
Changes in tax rates in other comprehensive income	(0.1)	-	(0.1)
Provided/(released) during the period in the income statement	0.8	(0.8)	-
Changes in tax rates in the income statement	(0.7)	0.2	(0.5)
At 30 June 2011	**9.2**	**(3.6)**	**5.6**
At 1 January 2011	8.9	(3.0)	5.9
Released during the year in other comprehensive income	(0.6)	-	(0.6)
Changes 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
Changes in tax rates in the income statement	(0.6)	0.2	(0.4)
At 31 December 2011	8.8	(3.6)	5.2

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 REIT status, deferred tax is only provided at each balance sheet date on properties outside of the REIT regime.

19. Dividend

		Dividend per share	**Half year to 30.06.2012**	Half year to 30.06.2011	Year to 31.12.2011
		p	**£m**	£m	£m
Current period					
2012 interim dividend	1 November 2012	9.95	**-**	-	-
Distribution of current period profit		9.95			
Prior period					
2011 interim dividend	4 November 2011	9.45	**-**	-	9.6
Distribution of prior period profit		9.45	**-**	-	9.6
Prior year					
2011 final dividend	15 June 2012	21.90	**22.3**	-	-
Distribution of prior year profit		31.35	**22.3**	-	-
2010 final dividend	16 June 2011	20.25	**-**	20.5	20.5
Dividends as reported in the statement of changes in equity			**22.3**	20.5	30.1
2011 final dividend - scrip element	15 June 2012		**(1.3)**	-	-
2011 final dividend withholding tax	13 July 2012		**(2.7)**	-	-
2011 interim dividend withholding tax	27 January 2012		**1.4**	-	(1.4)
2011 interim scrip dividend	4 November 2011		**-**	-	(2.3)
2010 final dividend - scrip element	16 June 2011		**-**	(2.4)	(2.4)
2010 final dividend withholding tax	14 July 2011		**-**	(3.2)	-
2010 interim dividend withholding tax	14 January 2011		**-**	1.4	1.4
Dividends paid as reported in the cash flow statement			**19.7**	16.3	25.4

20. Gearing ratios

Balance sheet gearing

	30.06.2012	30.06.2011	31.12.2011
	£m	£m	£m
Net debt	**870.2**	904.5	864.5
Net assets	**1,792.9**	1,661.4	1,714.5
Balance sheet gearing	**48.5%**	54.4%	50.4%

Loan to value ratio

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Net debt	**870.2**	904.5	864.5
Fair value adjustment of secured bonds	**(18.2)**	(19.0)	(18.6)
Unamortised issue and arrangement costs	**11.4**	10.1	7.9
Leasehold liabilities	**(6.0)**	(7.4)	(7.4)
Drawn facilities	**857.4**	888.2	846.4
Fair value of property portfolio	**2,728.4**	2,600.2	2,646.5
Loan to value ratio	**31.4%**	34.2%	32.0%

Interest cover ratio

	Half year to 30.06.2012 £m	Half year to 30.06.2011 £m	Year to 31.12.2011 £m
Gross property income	**62.3**	62.5	125.5
Surrender premiums	**(0.1)**	(0.4)	(2.4)
Ground rent	**(0.3)**	(0.4)	(0.8)
Gross rental income net of ground rent	**61.9**	61.7	122.3
Net finance costs	**20.4**	20.8	43.2
Foreign exchange gain	**0.3**	0.2	-
Net pension return	**-**	0.1	0.2
Finance lease costs	**(0.2)**	(0.2)	(0.5)
Amortisation of fair value adjustment to secured bonds	**0.4**	0.4	0.8
Amortisation of issue and arrangement costs	**(1.7)**	(0.8)	(2.0)
Non-utilisation fees	**(1.8)**	(0.7)	(1.9)
Net interest payable	**17.4**	19.8	39.8
Interest cover ratio	**356%**	312%	307%

21. Total return

	Half year to 30.06.2012 %	Half year to 30.06.2011 %	Year to 31.12.2011 %
Total return	**5.3**	11.2	17.4

22. Cash and cash equivalents

	30.06.2012 £m	30.06.2011 £m	31.12.2011 £m
Bank overdraft	**-**	(7.5)	-
Short-term deposits	**2.9**	7.3	3.5
	2.9	(0.2)	3.5

23. Post balance sheet events

Since 30 June 2012, the Group has completed the disposal of four freehold properties, two of which were sold for a combined total of £77.3m before costs, whilst two further properties included in the Group's Scottish portfolio were sold for a combined total of £16.8m before costs. These transactions will result in a profit before tax of approximately £1.5m based on 30 June 2012 carrying values. In addition the Group has simultaneously exchanged and completed the purchase of a property in Fitzrovia for £1.5m before costs.

Following the half year end, the Group prepaid and cancelled a £150m bank loan facility. At 30 June 2012 this facility was £95m drawn. Additionally, the Group signed a new 12¼ year fixed rate facility at 3.99%.

24. Risk management and internal control

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

During 2011, the Board recognised the raised profile being given to risk management in the UK Corporate Governance Code and decided to establish a Risk Committee to increase the focus of the Group's work in this area. The committee first met in November 2011 and consists of June de Moller, John Burns and Damian Wisniewski under the chairmanship of Stephen Young.

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

A key element in the systems of control is the Group's risk register which is reviewed formally once a year. The register is initially prepared by the executive Board which, having identified the risks, collectively assesses the severity of each risk, the likelihood of it occurring and the strength of the controls 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. There are also some risks that, with its experience and after due consideration, the Board will choose to accept.

The register, its method of preparation and the operation of the key controls in the Group's system of internal control, is then reviewed and commented upon by the Risk Committee before being considered and adopted by the full Board. The register was reviewed between December 2011 and February 2012 and the principal risks and uncertainties that the Group faces in 2012, together with the controls and mitigating factors, are set out below:

Strategic risks

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

Risk and effect	Controls and mitigation	Action
• The Group's strategy is inconsistent with the state of the market in which it operates. The Group benefits from a strong central London market. This could be adversely affected by, amongst other factors, ongoing crisis in the Eurozone, the introduction of a "Tobin" tax or the loss of London's current "safe haven" status. • The Group's development programme is not consistent with the economic cycle.	• Each year the Group carries out a five-year strategic review, prepares an annual budget and also prepares three rolling forecasts covering the next two years. In the course of these exercises the Board considers the effect on key ratios of changing the main underlying assumptions. • The Group's plans can then be set so as to best realise its long-term strategic goals given the likely prevailing economic and market conditions. This flexibility arises from the policy of maintaining income from properties as far 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 setting its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	• The Board carried out its last annual strategic review in June 2012 and considered the sensitivity of six key measures to changes in underlying assumptions including interest rates, 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.

Financial risks

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

Risk and effect	Controls and mitigation	Action
• A substantial decline in property values or a material loss of rental income could result in a breach of the Group's financial covenants. This may accelerate the repayment of the Group's borrowings or result in their cancellation.	• The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as overall balance sheet 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 used in such circumstances.	• The Group tested its compliance with its financial covenants regularly and operated comfortably within these limits in the first half of 2012. Property values could decline by around 50% at the balance sheet date before there would be a breach of financial covenants. • At 30 June 2012 the Group owned £595m of uncharged properties.
• The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources.	• The Group's five-year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This allows the preferred source of finance to be identified and evaluated and, to a degree, 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 the start of the year to below 50% after the refinancing described below. • 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 30 June 2012, the weighted average duration of the Group's debt was 4.9 years. • At the period end the Group had £410m of unutilised available committed bank facilities.

• Financing costs are higher due to increases in interest rates.	• The Group uses interest rate derivatives to “top up” the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	• The Group has terminated two interest rate swaps which were at historic rates and initiated new instruments which have enabled the Group to lock in the lower rates that are currently available. • 90% of borrowings were fixed or hedged at the period end.

Operational risks

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

Risk and effects	**Controls and mitigation**	**Action**
• The Group’s development projects do not produce the anticipated financial return due to delays in the planning process, increased construction costs or adverse letting conditions.	• Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group’s development programme is managed to reflect anticipated market conditions. • Regular cost reports are produced which 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 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 100 lettings achieved in 2011 and 28 lettings achieved in the half year to 30 June 2012. • The Group has secured significant pre-lets of the space in its current development programme which significantly “de-risks” these projects.

• The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. In particular, in the current adverse economic conditions, there is increased stress on consumer spending which could lead to higher business failures.	• 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 has a diversified tenant base. • The credit committee meets each week and considered 55 potential tenants during the first half of the year. The committee also monitors the content of a schedule of the tenants that the property managers are monitoring and the actions being taken. • In total the Group holds rental deposits amounting to £11.7 m. • On average, the Group has collected 97% of the rents due within 14 days of the due date.
• The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	• The remuneration packages of all employees are benchmarked regularly. • Six-monthly appraisals identify training requirements which are fulfilled over the next year.	• The Group recruited eight new members of staff during 2011 including key appointments in IT and corporate communications. Six new members of staff have been recruited in the first half of 2012. • Staff turnover during the first half of 2012 was low at 5%.
• 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.	• The new Risk Committee will report to the Board concerning the Group's 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 Health and Safety report is presented at all executive and main Board meetings. • The Group pays considerable attention to sustainability issues and produces a sustainability report annually.

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 condensed financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

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

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

Fair value and cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that between 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 generally being at least 60% and no more than 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 30 June 2012, the portion of fixed debt held by the Group was above this range at 90%, but this proportion will decrease as the Group carries out its capital expenditure programme. During both 2012 and 2011, the Group's borrowings at variable rate were denominated in sterling. The Group monitors the interest rate exposure on a regular basis. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps.

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 looks 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 a weekly short-term cash flow projection and three-year projections of loan balances on a regular basis as part of the Group’s forecasting processes. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

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

Capital disclosures
The Group’s capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and minority interest).

The Group’s objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of balance sheet gearing and the loan to value ratio. During 2012, the Group’s strategy, which was unchanged from 2011, was to maintain the balance sheet gearing below 80% in normal circumstances. These two gearing ratios as well as the interest cover ratio are defined at the end of this announcement and are derived in note 20.

25. List of definitions

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

Earnings/earnings per share (EPS)
Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the period to arrive at earnings per share.

Diluted earnings per share
Earnings per share adjusted to include the dilutive effects of potential shares issuable under the Group’s share option schemes and the convertible bond.

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe’s leading property companies, investors and consultants who strive to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. The EPRA guidelines include guidance for the calculations of the following performance measures:

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

Derwent London has adopted the EPRA methodology for all of these measures. In addition, in accordance with EPRA guidelines, we have made Company specific adjustments to adjusted profit and adjusted earnings per share to arrive at the underlying positions (see below).

Underlying earnings per share
EPRA earnings per share adjusted for items which are excluded to show the underlying trend. Currently these adjustments are for rates credits and the foreign exchange movement (see note 9).

Property income distribution (PID)
Dividends from profits of the Group’s tax-exempt property rental business under the REIT regulations.

Non PID
Dividends from profits of the Group’s taxable residual business.

Net debt
Borrowings plus bank overdraft less cash and cash equivalents.

Balance sheet gearing
Net debt divided by net assets.

Interest cover ratio
Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable and capitalised interest.

Loan-to-value ratio (LTV)
The nominal value of borrowed funds divided by the fair value of investment property.

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

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

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)
The regulations place a legal duty on employers to report work-related deaths, major Injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety executive.

IPD Central London Offices Index
An index, compiled by Investment Property Databank Limited, of the central and inner London offices in their quarterly valued universe.

Capital return
The annual valuation movement arising on the Group's portfolio expressed as a percentage return on the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

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

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

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

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

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

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

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

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