Derwent London plc

Annual results 2012 announcement

DERWENT
LONDON

28 February 2013

Derwent London plc ("Derwent London" / "the Group")
Results for the year ended 31 December 2012
Confident outlook underpinned by strong performance

Financial highlights

- EPRA net asset value per share increased by 11% to 1,886p from 1,701p at 31 December 2011
- EPRA profit before tax of £52.5m (2011: £52.3m) despite increase in development activity
- EPRA earnings per share of 50.36p (2011: 51.59p)
- Increase in EPRA like-for-like net rental income of 8.2%
- Final dividend increased by 8.4% to 23.75p per share (2011: 21.90p)
- Loan-to-value ratio of 30% (2011: 32%)

Performance

- £13.3m of lettings concluded on 340,300 sq ft (31,610m²) at a 7.6% premium to December 2011 ERV
- Vacancy rate low at 1.6% (31 December 2011: 1.3%) reflecting strong demand particularly from the TMT sector
- Underlying valuation increase of 7.3% in 2012 (2011: 7.6%)
- Underlying estimated rental values rose 6.7% (2011: 6.3%)
- EPRA net initial yield 4.3% (31 December 2011: 4.4%) and true equivalent yield 5.55% (31 December 2011: 5.61%)
- Developments and major refurbishments rose 14.1% in value

Projects

- Six major planning consents obtained during the year totalling 655,000 sq ft (60,850m²)
- 495,000 sq ft (46,000m²) of major projects underway at year end of which 37% pre-let
- Further 422,000 sq ft (39,200m²) to start in 2013
- 2.7 million sq ft (250,000m²) pipeline, two thirds of which has planning consent
- Construction of White Collar Factory, City Road EC1 being brought forward on a speculative basis
- Unlocked redevelopment opportunity at 55-65 North Wharf Road, Paddington W2 allowing construction of 240,000 sq ft (22,300m²) of offices from 2014

Acquisitions and disposals

- Acquisitions totalled £101m
- Disposals raised £161m after costs, giving a 4.5% surplus over 31 December 2011 values

Robert Rayne, Chairman, commented:

"Derwent London has delivered another strong set of results in 2012. The Group achieved a double digit percentage increase in net asset value driven by increasing rents in our markets, management activity and progress in our development pipeline.

We are continuing to see new tenants attracted to the space we provide and consider that rents in our markets will continue to rise. This gives us the confidence both to accelerate our development pipeline and increase the dividend for the year by 7.5%."

John Burns, Chief Executive Officer, commented:

"Last year was an excellent one for Derwent London. Our signature mid-market central London office space remains in demand and we expect our rental values to rise between 4% and 6% in 2013.

At Derwent London we look to create tomorrow's space today. We will complete 260,000 sq ft of projects in 2013 and by the year end we intend to have over 650,000 sq ft under construction, including 80 Charlotte Street, our largest regeneration project to date. We believe our prospects are good and look forward to the future with confidence."

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There will be a webcast of the results at 10:00am today which can be accessed at www.derwentlondon.com

CHAIRMAN'S STATEMENT

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

Highlights

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

- 340,300 sq ft (31,610m²) of space was let, securing £13.3m of rental income at an average premium of 7.6% to 31 December 2011 ERV, of which 55% related to pre-lettings of developments. The EPRA vacancy rate of available space at the year end was 1.6%.
- Six planning consents were secured totalling 655,000 sq ft (60,850m²).
- 4 & 10 Pentonville Road N1 was completed (55,000 sq ft/ 5,110m²) and is 87% let.
- Asset management initiatives were completed on 580,000 sq ft (53,900m²) providing greater longevity of income and inbuilt rental growth.
- Principal acquisitions were five properties totalling 247,500 sq ft (23,000m²) bought for £90.3m after costs (£365 per sq ft/ £3,930 per m²) at an average net initial yield of 4.7%.
- Disposals raised £161m after costs, generating a profit of £6.9m. These included the 50% interest in 1-5 Grosvenor Place SW1 to facilitate future development. The remainder were non-core assets.
- Our financing retains strength and flexibility. During the year we signed an £83m 3.99% 12-year secured loan, further diversifying our sources of finance and increasing our weighted average length of unexpired debt to 6.1 years at the year end.

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

Our market

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

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

Capturing value

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

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

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

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

Results and dividend

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

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

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

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

The Board

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

Outlook

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

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

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

- Complete 212,000 sq ft (19,700m²) at Buckley Building EC1 and 1 Page Street SW1 which are 70% pre-let overall.
- Progress construction of 256,000 sq ft (23,790m²) at 1-2 Stephen Street W1, 40 Chancery Lane WC2 and Turnmill EC1.
- Commence construction of 422,000 sq ft (39,200m²) in three developments including 80 Charlotte Street W1. Of this space around 20% will be residential, which will enable Derwent London to take advantage of the current high demand for central London residential property.
- Progress a number of major consented projects including White Collar Factory EC1, 55-65 North Wharf Road W2 and a retail scheme at 18-30 Tottenham Court Road W1 (together 570,000 sq ft/ 52,910m²).
- Advance the planning of our future value-creating opportunities, including 1-5 Grosvenor Place SW1.

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

Robert A. Rayne

28 February 2013

OUR MARKET

See Appendix 1 for supporting graphs

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

Economic backdrop

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

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

Central London office occupier market

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

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

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

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

Central London office investment market

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

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

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

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

VALUATION

See Appendix 2 for supporting graphs and tables

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

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

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

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

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

The portfolio remains highly reversionary. At 31 December 2012 the Group's net annualised rental income was £119.6m, with the portfolio's ERV at £175.0m, representing £55.4m of reversion. Of this, £21.0m is contractual, from our scheme pre-lets, such as 1 Page Street SW1 at £5.3m, fixed rental uplifts from the expiry of rent free periods and contracted stepped rentals. A further £21.1m is from available space at year end and our projects where we are on site. The balance of the reversion of £13.3m was from future rent reviews and lease renewals.

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

PORTFOLIO MANAGMENT

See Appendix 3 for supporting graphs and tables

Letting activity

Our mid-market offices in the West End and City borders continue to prove attractive to tenants, as evidenced by another excellent year for lettings in 2012. We let 340,300 sq ft (31,610m²) at an annual rent of £13.3m and an average premium of 7.6% to the December 2011 ERV. For comparison, in 2011, when we had more space available, we concluded 495,700 sq ft (46,050m²) of lettings at an annual rent of £16.7m.

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

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

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

The principal transactions in 2012 were as follows:

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

- **4 & 10 Pentonville Road N1**
  Within two months of practical completion, 47,700 sq ft (4,430m²) of this 55,000 sq ft (5,110m^2) building was let for 12 years to Ticketmaster at £45 per sq ft (£484 per m²) on the top floor and £42.50 per sq ft (£457 per m²) on a typical mid-level floor, giving a total rent of £1.9m pa. The completion of this development, opposite our Angel Building where rents of £42 per sq ft (£452 per m²) were achieved in 2011, continues the regeneration of this increasingly vibrant part of Islington.

- **Buckley Building EC1**
  Unilever has pre-let 21,100 sq ft (1,960m²) of office space paying £45 per sq ft (£484 per m²) on the ground floor and £40 per sq ft (£431 per m²) on the lower ground to give a total rent of £0.9m pa, 27% above the 30 June 2012 ERV of this space. The lease is for 12 years with a tenant's break at year six on payment of a 12 month rent penalty. A rent free period equivalent to 12 months was granted, with an additional six months if the break is not exercised.

  We are formally launching the marketing of the remaining 64,000 sq ft (5,900 m²) in this building in April 2013, following completion of the project.

- **1-2 Stephen Street W1**
  BrandOpus is more than tripling its occupation in our portfolio and will relocate to 18,300 sq ft (1,700m²) in Phase 1 of the 1-2 Stephen Street refurbishment from 5,000 sq ft (460m²) at the nearby Charlotte Building W1. It took 15,400 sq ft (1,430m²) in 2012 and an additional 2,900 sq ft (270m²) in February 2013. It will occupy ground and lower ground floor offices under a 10-year lease, paying a rent of £0.8m pa, representing £52.50 per sq ft (£565 per m²) on the prime space.

- **Johnson Building EC1**
  Existing media tenant Grey took an additional 11,100 sq ft (1,030m²) on a 9-year lease at £45 per sq ft (£485 per m²) or £0.50m pa, taking its total presence in the building to 61,100 sq ft (5,680m²).

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

Asset management

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

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

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

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

Reversionary potential

There remains a wide variety of additional opportunities for asset management initiatives. Our central London average passing office rent remains modest at £26.04 per sq ft (£280 per m²) and offers an excellent platform for income growth. Allowing for contracted increases, the average 'topped-up' rent is £31.18 per sq ft (£336 per m²). This compares with an ERV as at 31 December 2012 of £35.64 per sq ft (£384 per m²).

Rent collection

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

Vacancy rate

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

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

Activity in 2013 to date

In 2013 to date a further 241,900 sq ft (22,470m²) has been let or placed under offer generating income of £2.3m pa. This includes:

- **132-142 Hampstead Road NW1**
  The property, which under current plans is expected to be compulsorily purchased as part of the construction of HS2, is undergoing a 'light touch' refurbishment. UCL (University College London) has taken a pre-let of all 217,000 sq ft (20,160m²) at a total rent of £1.6m pa with 3% pa uplifts fixed in March 2016 and September 2018. The lease is for a 10-year term with mutual rolling breaks from September 2018 and has a rent free period equivalent to 15 months. This letting bolsters net income whilst retaining flexibility for development if circumstances change.

INVESTMENT ACTIVITY

Acquisitions

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

The main acquisitions in 2012 were:

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

Disposals

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

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

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

PROJECTS

See Appendix 4 for supporting graphs and tables.

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

Planning success in 2012

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

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

Project completed in 2012

4 & 10 Pentonville Road N1 was completed in Q3 2012 and 87% of this 55,000 sq ft (5,110m²) office refurbishment was let to Ticketmaster (see 'Letting activity').

Projects under construction

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

	Size of project		Capital expenditure to complete	Completion date	Pre-let
	sq ft	m²	£m		
Developments					
Buckley Building, 49 Clerkenwell Green EC1	85,000	7,900	3	Q1 2013	25% to Unilever
1 Page Street SW1	127,000	11,800	15	Q2 2013	100% to Burberry
Turnmill, 63 Clerkenwell Road EC1	70,000	6,500	19	Q3 2014	
40 Chancery Lane WC2	100,000	9,300	34	Q4 2014	
Phased refurbishments					
Morelands Buildings, 5-27 Old Street EC1	27,000	2,510	2	Q1 2013	66% to AHMM
1-2 Stephen Street W1	86,000	7,990	18	2013/14	21% to BrandOpus
Total	**495,000**	**46,000**	**91**		

Other projects

As at 31 December 2012, 282,600 sq ft (26,250m²) of minor refurbishments were underway, including at 3-4 Hardwick Street EC1 and 132-142 Hampstead Road NW1. These had an ERV of £4.0m pa and capital expenditure to complete of £8m.

Projects starting in 2013

During 2013 the Group will be increasing the proportion of development in the portfolio by commencing the following projects, totalling 422,000 sq ft (39,200m²):

- **80 Charlotte Street W1**
  At 385,000 sq ft (35,800m²), this is the largest regeneration that Derwent London has undertaken and will be one of the biggest schemes in the West End when construction starts towards the end of 2013. The main development occupies a 1.4 acre (0.6 hectare) site that will provide 320,000 sq ft (29,730m²) of offices and retail with 17,000 sq ft (1,580m²) of private residential units and retail adjacent at 67 Whitfield Street W1. Two other nearby properties will deliver a further 12,000 sq ft (1,110m²) of offices and 36,000 sq ft (3,340m²) of residential space, 42% of which will be affordable housing.

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

- **Queens, 96-98 Bishop's Bridge Road W2**
  This 21,400 sq ft (1,990m²) residential scheme in Westbourne Grove comprises 16 units and 2,700 sq ft (250m²) of retail space. Having received planning permission in 2012, work has now started.

- **73 Charlotte Street W1**
  This is another medium-sized residential-led development of 15,500 sq ft (1,440m²) to provide 11 units, two of which are affordable, together with 1,900 sq ft (180m²) of offices. Work is expected to start at this site after the receipt of vacant possession in the second half of 2013.

Projects for 2014 and beyond

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

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

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

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

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

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

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

- **1 -5 Grosvenor Place SW1**
  In March 2012, Derwent London and Grosvenor announced a joint venture and headlease regear at 1-5 Grosvenor Place. This collaboration unlocks a major prime redevelopment opportunity of over 260,000 sq ft (24,000m^2) at this unique 1.5 acre (0.6 hectare) site. Working with Grosvenor a professional advisory team has been assembled, with the expectation of submitting a planning application for this mixed-use redevelopment including a hotel, residential and offices within the next year. The joint venture partners are working towards choosing an operator for the hotel element from the current shortlist over the next few months. In the meantime the property is almost fully let on flexible leases.

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

FINANCE REVIEW

See Appendix 5 for supporting graphs and tables

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

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

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

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

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

Net asset value

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

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

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

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

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

Income statement

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

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

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

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

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

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

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

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

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

Taxation

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

Financing

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

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

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

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

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

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

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

Net debt and cash flow

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

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

Dividend

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

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

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

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

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

The Directors confirm to the best of their knowledge:

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

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

On behalf of the board
John D. Burns
Chief Executive Officer
28 February 2013

Damian M.A. Wisniewski
Finance Director

GROUP INCOME STATEMENT

	Note	**2012 £m**	2011 £m
Gross property and other income	5	**150.6**	150.9
Net property and other income	5	**117.0**	117.7
Administrative expenses		**(24.5)**	(22.8)
Movement in valuation of cash-settled share options		**(0.6)**	0.1
Total administrative expenses		**(25.1)**	(22.7)
Revaluation surplus	13	**174.4**	170.1
Profit on disposal of investment property	6	**6.9**	36.1
Profit on disposal of investment	7	**3.9**	-
Profit from operations		**277.1**	301.2
Finance income	8	**1.0**	1.1
Finance costs	8	**(41.8)**	(44.3)
Movement in fair value of derivative financial instruments		**(2.4)**	(26.5)
Financial derivative termination costs	9	**(6.9)**	-
Share of results of joint ventures	10	**1.1**	1.5
Profit before tax		**228.1**	233.0
Tax credit	11	**4.6**	1.3
Profit for the year		**232.7**	234.3
Attributable to:			
- Equity shareholders		**226.9**	228.3
- Minority interest		**5.8**	6.0
		232.7	234.3
Earnings per share	12	**222.76p**	225.20p
Diluted earnings per share	12	**211.82p**	217.67p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2012 £m**	2011 £m
Profit for the year		**232.7**	234.3
Actuarial gains/(losses) on defined benefit pension scheme		**1.2**	(3.5)
Revaluation surplus of owner-occupied property	13	**0.9**	2.0
Deferred tax on revaluation surplus	15	**0.3**	0.7
Foreign currency translation	8	**(0.3)**	-
Reclassification of exchange differences to income statement	7	**(3.9)**	-
Other comprehensive expense		**(1.8)**	(0.8)
Total comprehensive income relating to the year		**230.9**	233.5
Attributable to:			
- Equity shareholders		**225.1**	227.5
- Minority interest		**5.8**	6.0
		230.9	233.5

GROUP BALANCE SHEET

	Note	**2012 £m**	2011 £m
Non-current assets			
Investment property	13	**2,772.6**	2,444.9
Property, plant and equipment	14	**20.3**	19.4
Investments		**10.2**	9.7
Deferred tax	15	**0.5**	-
Pension scheme surplus		**0.2**	-
Other receivables	16	**60.9**	55.4
		2,864.7	2,529.4
Current assets			
Trade and other receivables	17	**50.8**	45.0
Cash and cash equivalents	24	**4.4**	3.5
		55.2	48.5
Non-current assets held for sale	18	**16.5**	137.5
Total assets		**2,936.4**	2,715.4
Current liabilities			
Bank overdraft and loans	20	**-**	32.5
Trade and other payables	19	**80.5**	70.9
Corporation tax liability		**1.9**	1.3
Provisions		**1.7**	1.6
		84.1	106.3
Non-current liabilities			
Borrowings	20	**879.2**	835.5
Derivative financial instruments	20	**54.3**	51.9
Provisions		**0.8**	0.5
Pension scheme deficit		**-**	1.5
Deferred tax	15	**-**	5.2
		934.3	894.6
Total liabilities		**1,018.4**	1,000.9
Total net assets		**1,918.0**	1,714.5
Equity			
Share capital		**5.0**	5.0
Share premium		**165.3**	162.9
Other reserves		**934.0**	936.6
Retained earnings		**756.1**	558.2
Equity shareholders' funds		**1,860.4**	1,662.7
Minority interest		**57.6**	51.8
Total equity		**1,918.0**	1,714.5

GROUP STATEMENT OF CHANGES IN EQUITY

	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
Profit for the year	-	-	-	226.9	226.9	5.8	232.7
Other comprehensive income	-	-	(3.0)	1.2	(1.8)	-	(1.8)
Share-based payments	-	0.4	0.4	2.3	3.1	-	3.1
Dividends paid	-	-	-	(30.5)	(30.5)	-	(30.5)
Scrip dividends	-	2.0	-	(2.0)	-	-	-
At 31 December 2012	**5.0**	**165.3**	**934.0**	**756.1**	**1,860.4**	**57.6**	**1,918.0**

	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
Profit for the year	-	-	-	228.3	228.3	6.0	234.3
Other comprehensive income	-	-	2.7	(3.5)	(0.8)	-	(0.8)
Share-based payments	-	-	0.5	1.9	2.4	-	2.4
Issue of convertible bonds	-	-	9.4	-	9.4	-	9.4
Dividends paid	-	-	-	(25.4)	(25.4)	(0.1)	(25.5)
Scrip dividends	-	4.7	-	(4.7)	-	-	-
At 31 December 2011	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5

GROUP CASH FLOW STATEMENT

	Note	**2012** **£m**	2011 £m
Operating activities			
Property income		**118.1**	116.8
Property expenses		**(9.9)**	(13.1)
Cash paid to and on behalf of employees		**(17.8)**	(14.4)
Other administrative expenses		**(4.3)**	(5.2)
Interest received		**0.1**	-
Interest paid	8	**(33.3)**	(36.5)
Other finance costs		**(3.4)**	(1.8)
Other income		**2.5**	2.1
Tax paid in respect of operating activities		**(0.2)**	(0.7)
Net cash from operating activities		**51.8**	47.2
Investing activities			
Acquisition of investment properties		**(99.8)**	(91.6)
Capital expenditure on investment properties	8	**(78.6)**	(42.6)
Disposal of investment properties		**161.0**	131.5
Purchase of property, plant and equipment		**(0.4)**	(0.2)
Distributions received from joint ventures		**0.7**	0.3
Advances to minority interest holder		**(2.4)**	(0.8)
Net cash used in investing activities		**(19.5)**	(3.4)
Financing activities			
Net proceeds of bond issue		**-**	170.2
Repayment of revolving bank loan		**(123.0)**	(75.0)
Drawdown of new revolving bank loan		**73.0**	-
Net movement in other revolving bank loans		**133.5**	(179.1)
Repayment of non-revolving bank loans		**(158.5)**	-
Drawdown of non-revolving bank loans		**-**	67.5
Drawdown of non-revolving loan		**81.6**	-
Repayment of loan notes		**(1.1)**	-
Financial derivative termination costs		**(6.9)**	-
Net proceeds of share issues		**0.4**	-
Dividends paid to minority interest holder		**-**	(0.1)
Dividends paid	21	**(30.4)**	(25.4)
Net cash used in financing activities		**(31.4)**	(41.9)
Increase in cash and cash equivalents in the year		**0.9**	1.9
Cash and cash equivalents at the beginning of the year		**3.5**	1.6
Cash and cash equivalents at the end of the year	24	**4.4**	3.5

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2012 or the year ended 31 December 2011, but is derived from those accounts. The Group's statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 will be delivered following the Company's Annual General Meeting. The auditor's reports on both the 2011 and 2012 accounts were unqualified, did not draw attention to any matters by way of an emphasis, and did not contain any statement under Section 498 of the Companies Act 2006.

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

2. Changes in accounting policies

New standards adopted during the year
The following standards, amendments and interpretations endorsed by the EU are effective for the first time for the Group's 31 December 2012 year end:

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

These had no material impact on the financial statements.

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

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

IFRS 9 Financial Instruments;
IFRS 12 Disclosure of Interests in Other Entities;
IFRS 13 Fair Value Measurement;
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; and
IAS 32 Financial Instruments: Presentation.

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

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

3. Significant 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. Other than judgements for exceptional items, these are the same judgements identified at the previous year end.

- Trade receivables
- Property portfolio valuation
- Outstanding rent reviews
- Compliance with the real estate investment trust (REIT) taxation regime

A full discussion of these policies will be included in the 2012 financial statements.

4. Segmental information

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

The internal financial reports received by the Group's executive Board contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the adjusted earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 12. Additionally, information is provided to the executive Board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

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

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

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

*Some office buildings have an ancillary element such as retail or residential.

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

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

Property portfolio

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

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

A reconciliation between fair value and carrying value of the portfolio is set out in note 13.

5. Property and other income

	2012 £m	2011 £m
Rental income	**124.7**	124.1
Surrender premiums received	**0.3**	2.4
Write-off of associated rents previously recognised in advance	**(0.2)**	(1.0)
	0.1	1.4
Gross property income	**124.8**	125.5
Service charge income	**23.3**	23.4
Other income	**2.5**	2.0
Gross property and other income	**150.6**	150.9
Gross property income	**124.8**	125.5
Other income	**2.5**	2.0
Ground rents	**(0.5)**	(0.3)
Reverse surrender premiums	**(0.2)**	(1.9)
Service charge income	**23.3**	23.4
Service charge expenses	**(24.8)**	(25.8)
	(1.5)	(2.4)
Other property costs	**(8.1)**	(5.2)
Net property and other income	**117.0**	117.7

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

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

6. Profit on disposal of investment property

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

7. Profit on disposal of investment

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

8. Finance income and costs

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

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

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

9. Financial derivative termination costs

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

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

10. Share of results of joint ventures

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

11. Tax credit

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

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

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

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

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

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

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

Number of shares

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

Profit before tax, earnings and earnings per share

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

Net asset value and net asset value per share

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

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

13. 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	57.1	44.4	101.5	-	-	101.5
Capital expenditure	63.9	13.2	77.1	-	0.4	77.5
Interest capitalisation	4.2	0.7	4.9	-	-	4.9
Additions	125.2	58.3	183.5	-	0.4	183.9
Disposals	(16.1)	(0.2)	(16.3)	-	(137.9)	(154.2)
Depreciation	-	-	-	(0.1)	-	(0.1)
Transfers	(17.7)	1.2	(16.5)	-	16.5	-
Revaluation	136.3	38.1	174.4	0.9	-	175.3
Movement in grossing up of headlease liabilities	-	2.6	2.6	-	-	2.6
At 31 December 2012	**2,296.6**	**476.0**	**2,772.6**	**17.9**	**16.5**	**2,807.0**
At 1 January 2011	1,965.7	407.6	2,373.3	15.2	-	2,388.5
Acquisitions	85.5	6.1	91.6	-	-	91.6
Capital expenditure	32.5	6.5	39.0	-	2.0	41.0
Interest capitalisation	1.9	0.3	2.2	-	-	2.2
Additions	119.9	12.9	132.8	-	2.0	134.8
Disposals	(95.0)	-	(95.0)	-	-	(95.0)
Depreciation	-	-	-	(0.1)	-	(0.1)
Transfers	(58.0)	(66.3)	(124.3)	-	123.5	(0.8)
Revaluation	136.3	21.8	158.1	2.0	12.0	172.1
At 31 December 2011	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
At 31 December 2012						
Fair value	2,353.9	471.3	2,825.2	17.9	16.5	2,859.6
Rents recognised in advance	(57.3)	(4.2)	(61.5)	-	-	(61.5)
Grossing up of headlease liabilities	-	8.9	8.9	-	-	8.9
Carrying value	**2,296.6**	**476.0**	**2,772.6**	**17.9**	**16.5**	**2,807.0**
At 31 December 2011						
Fair value	2,118.4	373.8	2,492.2	17.1	137.2	2,646.5
Rents recognised in advance	(49.5)	(4.1)	(53.6)	-	(0.8)	(54.4)
Grossing up of headlease liabilities	-	6.3	6.3	-	1.1	7.4
Carrying value	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5

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

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

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

In 2011, the transfer of £0.8m related to artwork held at the Group's properties which was previously capitalised as part of the property. However, as these items are transferable and would not necessarily be included with a sale of a property they were transferred to property, plant and equipment (see note 14).

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

14. Property, plant and equipment

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

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

The historic cost of the artwork in the Group at 31 December 2012 was £1.5m (2011: £1.5m). See note 13 for the historic cost of owner-occupied property.

15. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2012	(8.8)	3.6	(5.2)
Released during the year in other comprehensive income	0.2	-	0.2
Changes in tax rates in other comprehensive income	0.1	-	0.1
Released during the year in the income statement	3.8	1.3	5.1
Change in tax rates in the income statement	0.6	(0.3)	0.3
At 31 December 2012	**(4.1)**	**4.6**	**0.5**
At 1 January 2011	(8.9)	3.0	(5.9)
Released during the year in other comprehensive income	0.6	-	0.6
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)
Change 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.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

16. Other receivables (non-current)

	2012 £m	2011 £m
Accrued income	**55.5**	50.1
Other	**5.4**	5.3
	60.9	55.4

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods, reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases. At 31 December 2012, the total rents recognised in advance were £61.5m (2011: £54.4m), with £6.0m of this amount (2011: £4.3m) included as current assets within trade and other receivables.

17. Trade and other receivables

	2012 **£m**	2011 £m
Trade receivables	**8.6**	9.0
Other receivables	**13.3**	13.0
Prepayments	**14.8**	16.5
Sales and social security taxes	**5.9**	2.2
Accrued income	**8.2**	4.3
	50.8	45.0

18. Non-current assets held for sale

	2012 **£m**	2011 £m
Investment properties (see note 13)	**16.5**	137.5
	16.5	137.5

In February 2013, the Group exchanged contracts to sell two freehold properties for a total of £16.5m after costs.

In February 2012, the Group signed a joint venture agreement with Grosvenor, the freeholder of 1-5 Grosvenor Place SW1 to consider the redevelopment of the site. As part of this transaction, the Group was granted a 150-year headlease and sold 50% of its ownership to Grosvenor for £60m, before costs. In addition, the Group exchanged contracts to sell two properties, Riverwalk House SW1 and 232-242 Vauxhall Bridge Road SW1, with completion conditional on a suitable planning permission the receipt of which occurred during the second half of 2012.

Therefore, at 31 December 2012 and 31 December 2011, respectively, these properties were recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale. See note 13 for historic cost of non-current assets held for sale.

19. Trade and other payables

	2012 **£m**	2011 £m
Trade payables	**7.9**	7.1
Other payables	**10.6**	10.9
Accruals	**25.7**	17.1
Deferred income	**36.3**	35.8
	80.5	70.9

20. Borrowings and derivative financial instruments

	2012 £m	2011 £m
Current liabilities		
Unsecured bank loan	**-**	31.4
Loan notes	**-**	1.1
	-	32.5
Non-current liabilities		
2.75% unsecured convertible bonds 2016	**165.0**	162.4
6.5% secured bonds 2026	**191.4**	192.2
Bank loans	**432.2**	473.5
3.99% secured loan	**81.7**	-
Leasehold liabilities	**8.9**	7.4
	879.2	835.5
Derivative financial instruments expiring in greater than one year	**54.3**	51.9
Total liabilities	**933.5**	919.9
Reconciliation to net debt:		
Total borrowings and derivative financial instruments	**933.5**	919.9
Less:		
Derivative financial instruments	**(54.3)**	(51.9)
Cash and cash equivalents	**(4.4)**	(3.5)
Net debt	**874.8**	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 are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond. As a result, £165.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9.6m, which represents the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is amortised through the income statement from the date of issue. Issue costs of £4.8m have been 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.

21. Dividends

	Payment date	Dividend per share PID p	Non-PID p	Total p	**2012 £m**	2011 £m
Current year						
2012 final dividend	14 June 2013	18.75	5.00	23.75	**-**	-
2012 interim dividend	1 November 2012	9.95	-	9.95	**10.2**	-
Distribution of current year profit		28.70	5.00	33.70	**10.2**	-
Prior year						
2011 final dividend	15 June 2012	18.10	3.80	21.90	**22.3**	-
2011 interim dividend	4 November 2011	9.45	-	9.45	**-**	9.6
Distribution of prior year profit		27.55	3.80	31.35	**22.3**	9.6
2010 final dividend	16 June 2011	20.25	-	20.25	**-**	20.5
Dividends as reported in the Group statement of changes in equity					**32.5**	30.1
2012 interim dividend witholding tax	14 January 2013				**(1.5)**	-
2012 interim scrip dividend	1 November 2012				**(0.7)**	-
2011 final scrip dividend	15 June 2012				**(1.3)**	-
2011 interim dividend witholding tax	27 January 2012				**1.4**	(1.4)
2011 interim scrip dividend	4 November 2011				**-**	(2.3)
2010 final scrip dividend	16 June 2011				**-**	(2.4)
2010 interim dividend withholding tax	14 January 2011				**-**	1.4
Dividends paid as reported in the Group cash flow statement					**30.4**	25.4

22. Gearing ratios

NAV gearing

	2012 £m	2011 £m
Net debt	**874.8**	864.5
Net assets	**1,918.0**	1,714.5
NAV gearing	**45.6%**	50.4%

Loan-to-value ratio

	2012 £m	2011 £m
Net debt	**874.8**	864.5
Fair value adjustment of secured bonds	**(17.8)**	(18.6)
Unamortised arrangement costs	**11.2**	7.9
Leasehold liabilities	**(8.9)**	(7.4)
Drawn facilities	**859.3**	846.4
Fair value of property portfolio	**2,859.6**	2,646.5
Loan-to-value ratio	**30.0%**	32.0%

Interest cover ratio

	2012	2011
	£m	£m
Gross property income	**124.8**	125.5
Surrender premiums	**(0.3)**	(2.4)
Ground rent	**(0.9)**	(0.8)
Gross rental income net of ground rent	**123.6**	122.3
Net finance costs	**40.8**	43.2
Foreign exchange gain	**0.3**	-
Net pension return	**0.1**	0.2
Finance lease costs	**(0.4)**	(0.5)
Amortisation of fair value adjustment to secured bonds	**0.8**	0.8
Amortisation of issue and arrangement costs	**(3.1)**	(2.0)
Non-utilisation fees	**(3.3)**	(1.9)
Net interest payable	**35.2**	39.8
Interest cover ratio	**351%**	307%

23. Total return

	2012	2011
	%	%
Total return	**12.7**	17.4

24. Cash and cash equivalents

	2012	2011
	£m	£m
Short-term deposits	**4.4**	3.5

25. Post balance sheet events

In February 2013, the Group exchanged contracts to sell two freehold properties for a total of £16.5m after costs. These transactions will realise neither a profit nor loss on disposal.

26. Risk management and internal control

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

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

A key element in the system of internal controls is the Group's risk register which is reviewed formally by the Board once a year. The register is prepared by the members of the Executive Committee which, having identified the risks, collectively assesses the severity of each risk, the likelihood of it occurring and the strength of the controls in place. This approach allows the effect of any mitigating procedures to be considered and recognises that risk cannot be totally eliminated at an acceptable cost. It also recognises that there are some risks that, with its experience and after due consideration, the Board will 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 reviewed throughout the year by the Risk Committee which periodically receives presentations from senior management to gain a more in-depth understanding of the control environment in certain areas of the business. The register was updated between December 2012 and February 2013 and includes 43 risks spread between strategic risks, corporate risks, property risks and financial risks.

The principal risks and uncertainties that the Group faces in 2013, together with the controls and mitigating factors, are set out 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
• **Inconsistent strategy** The Group's strategy is inconsistent with the state of the market in which it operates. • **Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. The Group currently benefits from a strong central London market which could be adversely affected by a number of high level economic factors. This would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – Total Return and Total Property Return. The Board sees the level of this risk as broadly unchanged from last year.	• The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios caused by changing the main underlying assumptions to reflect different economic scenarios. • The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility arises from the policy of maintaining income from properties for as long as possible until development starts.	• The last annual strategic review was carried out by the Board in June 2012. This considered the sensitivity of six key measures to changes in underlying assumptions including interest rates and borrowing margins, timing of projects, level of capital expenditure and capital recycling. • The three rolling forecasts prepared during the year focus on the same key measures but consider the effect of varying different assumptions to reflect changing economic and market conditions. • The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations.

	• Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable. • The risk remains significant and therefore in forming its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	• During the year the Group's interest cover ratio was above 350% and the REIT ratios were comfortably met. At the year end its loan-to-value ratio was 30%.

Financial risks

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

<u>**Risk and effect**</u>	<u>**Controls and mitigation**</u>	<u>**Action**</u>
• **Breach of financial covenants** A substantial decline in property values or a material loss of rental income could result in a breach of the Group's financial covenants. This may accelerate the repayment of the Group's borrowings or result in their cancellation. A decline in property values would affect the Group's Total Return and Total Property Return, both KPIs. A loss of rental income would also affect another KPI - Interest Cover Ratio. The Board considers this risk to be slightly lower this year as it has considerable headroom with its covenants and expects the business cycle to be less volatile.	• The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as overall NAV gearing. Treasury control schedules are updated weekly whilst the rolling forecasts enable any potential problems to be identified at an early stage and corrective action to be taken. The Group has considerable headroom under its financial covenants, operates at a modest level of gearing and has a substantial amount of uncharged property that could be secured if necessary.	• The Group tests its compliance with financial covenants regularly and operated comfortably within these limits throughout 2012. Property values could decline by around 40% at the balance sheet date before there would be a breach of financial covenants. • Compliance with the financial covenants is one of the matters monitored as part of the sensitivity analysis undertaken when preparing the annual strategic review and the rolling forecasts. • At 31 December 2012 the Group owned £624m of uncharged properties.
• **Sub-optimal financing structure** The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources. This risk would affect the Group's Interest Cover Ratio KPI.	• The Group's five-year strategic review and rolling forecasts enable financing requirements to be identified at an early stage. This allows alternative sources of finance to be evaluated and the preferred one to be identified. To a degree, the funds can then be	• The Group's financing comes increasingly from a number of different sources/providers and has a varied maturity profile. The proportion of the Group's borrowings provided by bank loans decreased from 59% at 31 December 2011 to 50% at the year end.

The Board considers this risk to have decreased over the last 12 months as the Group has increased the diversity of its funding sources and there have been improvements in the health of the banking sector.	raised when market conditions are favourable.	• The refinancing of the facilities maturing in 2013 that was started in 2011 was completed in August 2012. The focus in 2011 was to renew or refinance revolving bank facilities. Then in August 2012, the remaining £150m bank loan expiring in 2013 was prepaid and cancelled and a new £83m loan was signed with Cornerstone/Mass Mutual for a term of 12¼ years at a fixed rate of 3.99%. • As at 31 December 2012, the weighted average duration of the Group's debt was 6.1 years. • At the year end the Group had £333m of unutilised available, committed bank facilities.
• **Higher interest rates** Financing costs are higher due to increases in interest rates. This risk would also affect the Group's Interest Cover Ratio KPI. The Board sees this risk as unchanged over the year.	• The Group uses interest rate derivatives to "top up" the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	• During the year the Group terminated three interest rate swaps which were at historic rates and initiated new instruments which have locked in the lower rates that were available at that time. • 92% of borrowings were fixed or hedged at the year end.

Operational risks

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

<u>**Risk and effects**</u>	<u>**Controls and mitigation**</u>	<u>**Action**</u>
• **Reduced development returns** The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: : Delays in the planning process. : Delays due to contractors/ sub-contractors defaulting. : Increased construction costs. : Adverse letting conditions.	• Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group's development programme is managed to reflect anticipated market conditions.	• The Group 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

This would have an effect on the Group’s Total Return and Total Property Return KPIs. Taken as a whole the Board considers this risk to be at the same level as last year.	• Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage. • Post completion reviews are carried out for all major developments to ensure that improvements to the Group’s procedures are identified and implemented.	designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing. • The Group’s style of accommodation remains in demand as evidenced by the 49 lettings achieved in 2012 which totalled 340,300 sq ft. • The Group has secured significant pre-lets of the space in its current development programme which significantly “de-risks” these projects.
• **Tenant default** The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. The continuing lack of growth in the UK economy could lead to an increase in business failure. This risk would have an immediate effect on the Group’s Tenant Receipts and Void Management KPIs and, if significant, on the Total Property Return, Total Return and Interest Cover Ratio. The Board considers this risk to have increased over the last year due to the effect that the prolonged austerity measures are having on businesses.	• All prospective tenants are considered by the Group’s credit committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. • The Group’s property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. • The Group’s credit committee regularly reviews a list of slow payers and considers what actions should be taken.	• The Group has a diversified tenant base. • The credit committee meets each week and considered 98 potential tenants during the year. • In total the Group holds rental deposits amounting to £10.8m. • On average during the year, the Group has collected 98% of the rents due within 14 days of the due date.
• **Shortage of key staff** The Group is unable to successfully implement its strategy due to inadequate succession planning or a failure to recruit and retain key staff with appropriate skills. This risk could impact on any of the Group’s KPIs. The risk is seen as unchanged over the year.	• The remuneration packages of all employees are bench-marked regularly. • Six-monthly appraisals identify training requirements which are fulfilled over the next six months. • The Nominations Committee reviews the Group’s succession planning for both executive and non-executive Directors.	• The Group recruited 11 new members of staff during 2012. The key appointment of a sustainability manager was made in January 2013. • Staff turnover during 2012 was low at 7% (9% including retirees). • The Executive Committee considers non-Board succession issues.

• **Damaged reputation** The Group's cost base is increased or its reputation damaged through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This risk would most directly impact on the Group's Total Shareholder Return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to have increased over the year due to increased legislation covering more areas of the Group's business and an increased ability of pressure groups to gain publicity for any breaches.	• The Group's risk committee reports to the Board concerning regulatory risk. • The Group employs a health and safety manager. • A sustainability committee chaired by Paul Williams and advised by external consultants addresses risk in this area. A sustainability manager was recruited in January 2013. • The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. • All new members of staff benefit from an induction programme.	• A Health and Safety report is presented at all Executive Committee and main Board meetings. • The Group pays considerable attention to sustainability issues and produces a sustainability report annually.

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, a fixed rate loan, secured and unsecured bonds, and interest rate swaps.

General objectives, policies and processes

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from its lease contracts. It is Group policy to assess the credit risk of new tenants before entering into contracts. The Board has established a credit committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings, when available, and, in some cases, forecast information and bank and trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained.

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time.

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

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

Fair value and cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2012, the proportion of fixed debt held by the Group was above this range at 92%. During both 2012 and 2011, the Group's borrowings at variable rate were denominated in sterling.

The Group monitors the interest rate exposure on a regular basis. A sensitivity analysis was performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates and this would result in an increase of £0.3m (2011: £0.1m) or a decrease of £0.3m (2011: £0.1m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. The Group generally raises long-term borrowings at floating rates and swaps them into fixed.

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

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

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

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

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2012, the Group's strategy, which was unchanged from 2011, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined at the end of this announcement and are derived in note 22.

27. Related parties

The Directors confirm that, to the best of their knowledge, there were no significant related party transactions or changes in related party transactions during the financial year ended 31 December 2012.

28. 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 financial year 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 calculation 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.

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.

NAV 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 year plus the dividend per share paid during the year expressed as a percentage of the adjusted net asset value per share at the beginning of the year.

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

Total shareholder return
The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the year, 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' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Assumes rent is received quarterly in advance.

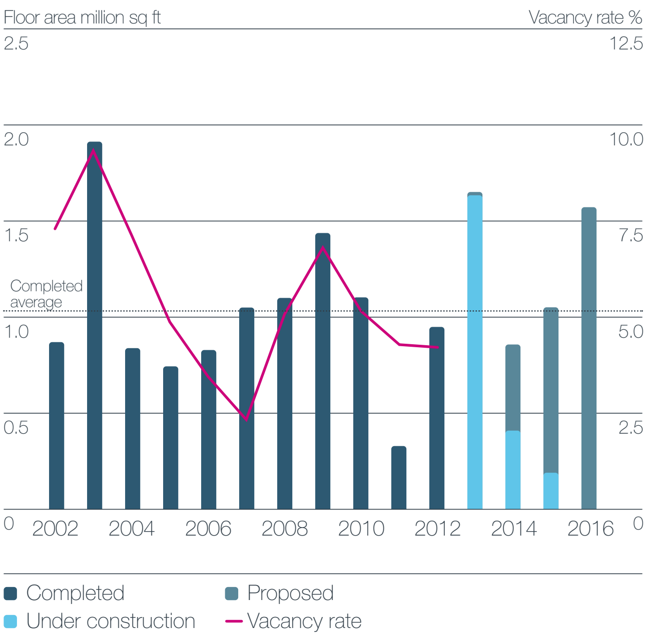
Reversion
The reversion is the amount by which the rental value as estimated by the Group's external valuers is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

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

29. 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.

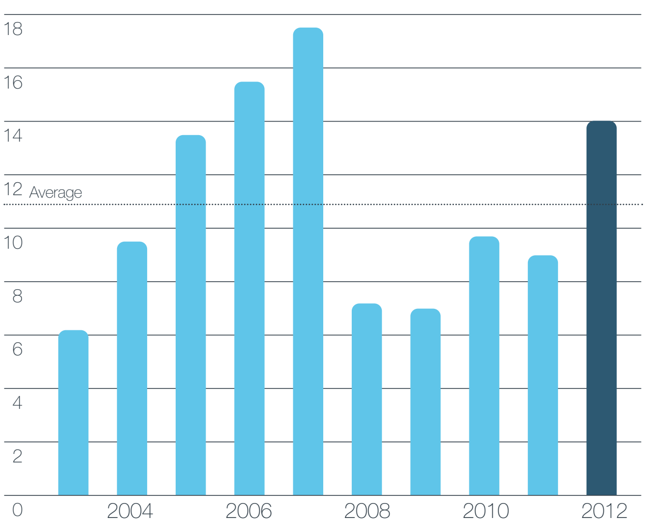
APPENDIX 1
OUR MARKET

West End office development pipeline



Source: CBRE

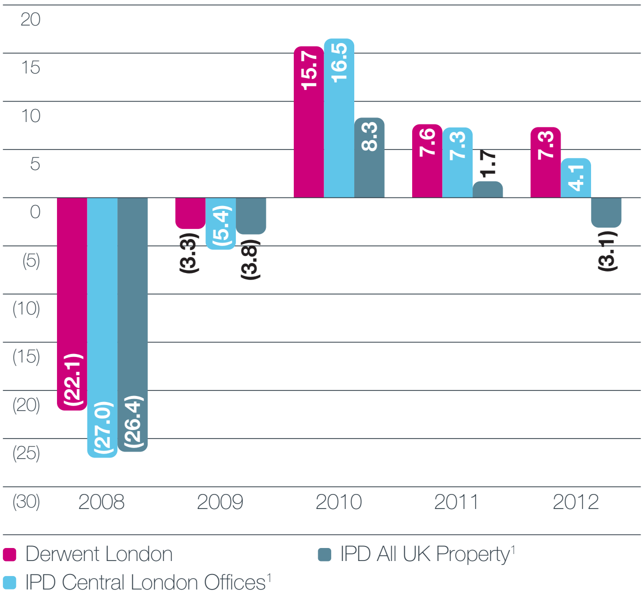
Central London office investment transactions £bn



Source: CBRE

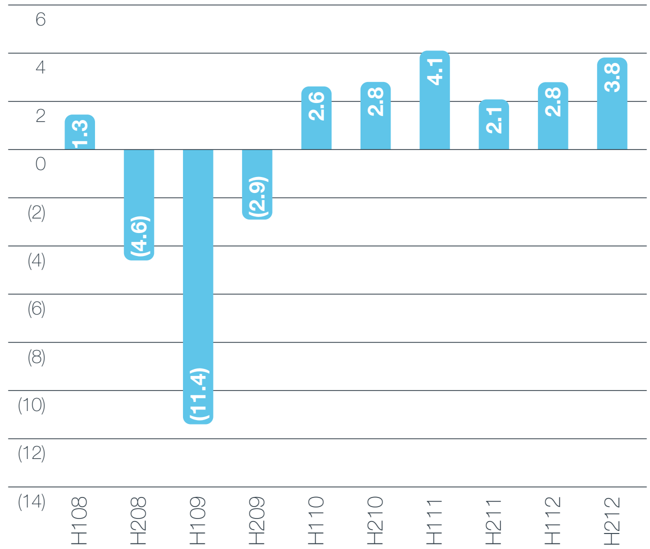
APPENDIX 2
VALUATION

Valuation performance %



[1] Quarterly Index

Rental value growth[1] %



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

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance £m	Total floor area m²	Available floor area m²	Project floor area m²
West End							
Central	1,892.6	66	6.4	105.2	278,900	2,100	31,200
Borders	269.6	10	12.6	29.8	52,900	800	300
	2,162.2	76	7.2	135.0	331,800	2,900	31,500
City							
Borders	603.9	21	10.2	53.6	143,800	2,400	28,900
Central London	2,766.1	97	7.8	188.6	475,600	5,300	60,400
Provincial	93.5	3	(5.3)	(5.3)	30,200	900	0
Total portfolio 2012	**2,859.6**	**100**	**7.3**	**183.3**	**505,800**	**6,200**	**60,400**
2011	2,646.5	100	7.6	181.7	501,400	5,700	64,800

[1] Properties held throughout the year

APPENDIX 3
PORTFOLIO MANAGEMENT

Rental income profile

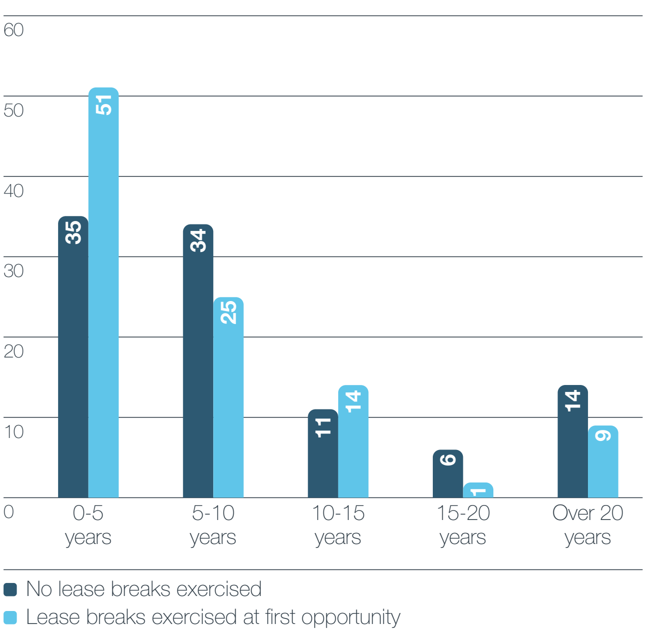
	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		119.6
Contractual rental increases across the portfolio	21.0	
Letting 6,200m² available floor area	2.1	
Completion and letting 60,400m² of project floor area	19.0	
Anticipated rent review and lease renewal reversions	13.3	
Portfolio reversion		55.4
Potential portfolio rental value		175.0

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End						
Central	76.5	314	7.9	22.6	107.0	7.8
Borders	11.1	214	0.2	5.8	17.1	9.2
	87.6	297	8.1	28.4	124.1	7.9
City						
Borders	27.8	249	12.8	5.4	46.0	5.9
Central London	115.4	284	20.9	33.8	170.1	7.4
Provincial	4.2	144	0.2	0.5	4.9	6.4
Total portfolio 2012	**119.6**	**274**	**21.1**	**34.3**	**175.0**	**7.4**
2011	113.1	264	20.6	26.7	160.4	7.2

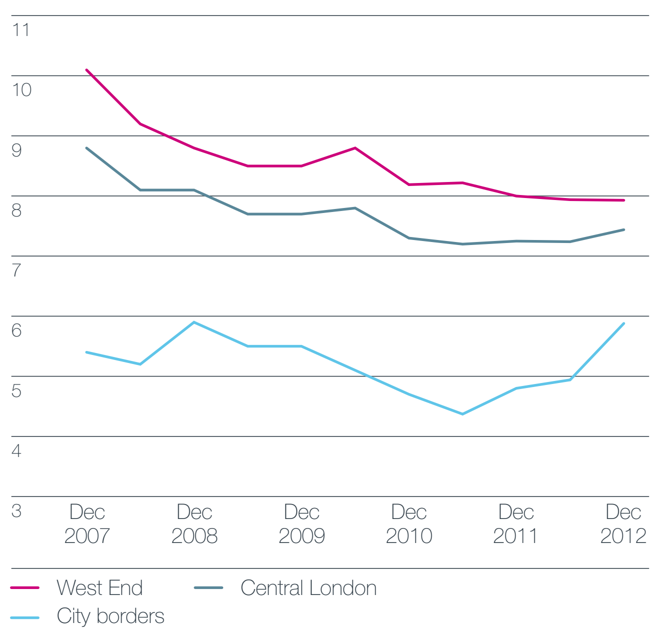
[1] Lease length weighted by rental income and assuming tenants break at first opportunity

Profile of rental income expiry[1] %



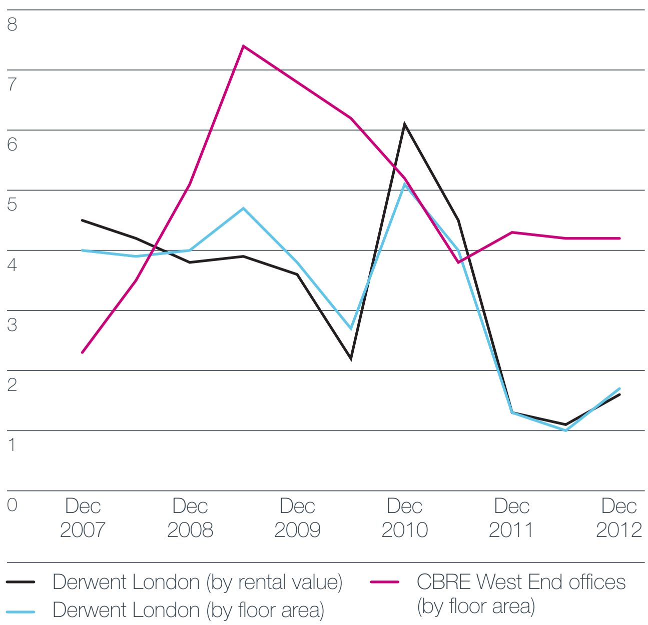
[1] Based upon annualised net contracted rental income of £119.6m

Average unexpired lease length[1] Years



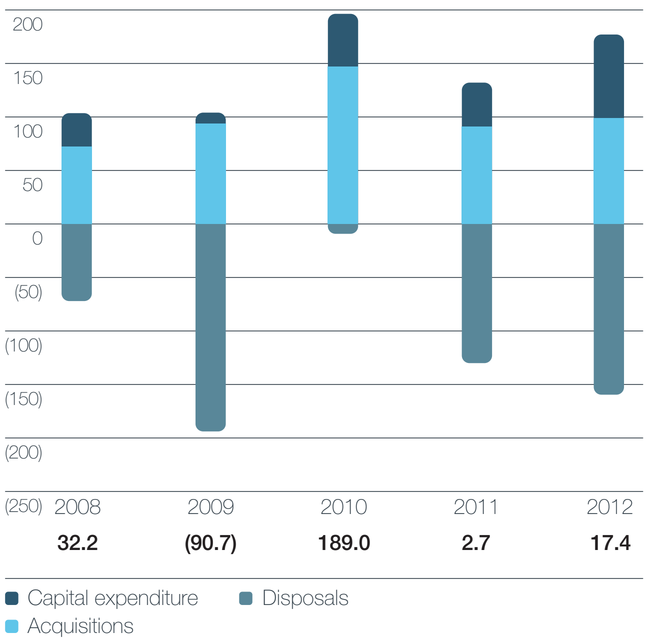
[1] Lease length weighted by rental income and assuming tenants break at first opportunity

Five-year vacancy trend %



APPENDIX 4
PROJECTS

Net investment £m



Project summary

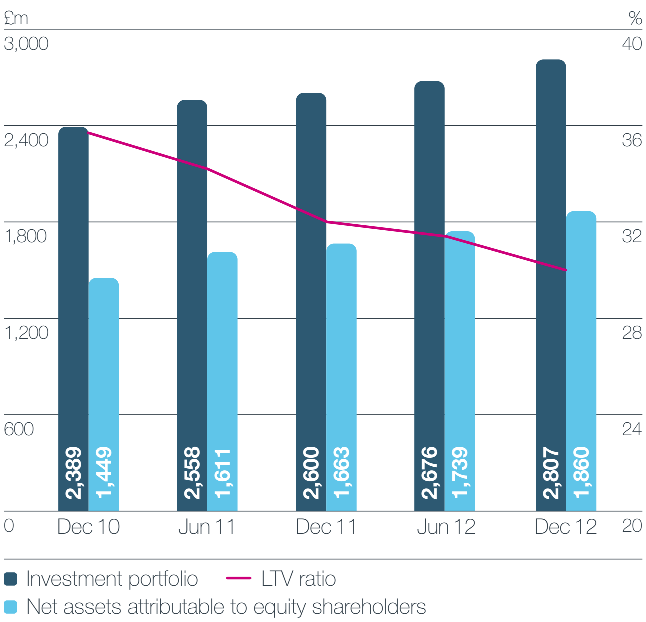
2013-2014	Existing net income per annum £m	Pre-scheme area m²	Proposed area m²	Capital expenditure to complete £m	Potential delivery Year
On site at December 2012					
Buckley Building EC1	2.5	7,000	7,900	3	Q1 2013
1 Page Street SW1	–	11,000	11,800	15	Q2 2013
Turnmill, 63 Clerkenwell Road EC1	–	3,800	6,500	19	Q3 2014
40 Chancery Lane WC2	–	5,700	9,300	34	Q4 2014
1-2 Stephen Street W1[1]	–	7,700	8,000	18	2013/14
Morelands Buildings EC1[1]	–	1,600	2,500	2	Q1 2013
	2.5	36,800	46,000	91	
2013					
Queens, 96-98 Bishop's Bridge Road W2	–	–	2,000	12	Q4 2014
73 Charlotte Street W1	0.2	1,200	1,400	9	Q2 2015
80 Charlotte Street W1	5.1	22,500	35,800	147	Q2 2016
	5.3	23,700	39,200	168	
2014					
18-30 Tottenham Court Road W1	0.7	2,200	3,800	11	Q2 2015
	0.7	2,200	3,800	11	
Planning and design				27	
Other				37	
Total (2013-14)	**8.5**	**62,700**	**89,000**	**334**	

2015 onwards	Existing net income per annum £m	Pre-scheme area m²	Proposed area m²	Earliest possession Year	Comment
White Collar Factory EC1	0.8	11,500	26,800	2013	Consented – offices
Jaeger House, Broadwick Street W1	0.8	2,300	c.2,800	2013	Appraisal studies
Wedge House SE1	0.3	3,600	7,400	2013	Consented – offices
55-65 North Wharf Road W2	1.5	7,200	22,300	2014	Consented – offices
Balmoral Grove Buildings N7	0.6	6,200	c.18,600	2014	Appraisal studies
9 Prescot Street E1	1.2	9,600	c.10,500	2015	Appraisal studies
1-5 Grosvenor Place SW1	6.2	15,600	c.24,200	2014/16	Appraisal studies – Grosvenor JV
25 and 29 Berners Street W1	1.4	7,300	c.9,300	2016	Appraisal studies
1 Oxford Street W1	–	–	25,500	c.2017	Consented scheme – office, retail and theatre
Network Building W1	2.1	5,900	c.9,300	2017	Appraisal studies
19-35 Baker Street W1	4.6	13,600	c.23,200	c.2018	Appraisal studies – Portman JV
Premier House SW1	1.9	5,800	c.7,400	2018	Appraisal studies
	21.4	88,600	187,300		
Adjustments for JVs	(5.2)	(13,900)	(22,500)		
Total (2015 onwards)	**16.2**	**74,700**	**164,800**		
Total pipeline	**24.7**	**137,400**	**253,800**		

[1] Part building

APPENDIX 5
FINANCE REVIEW

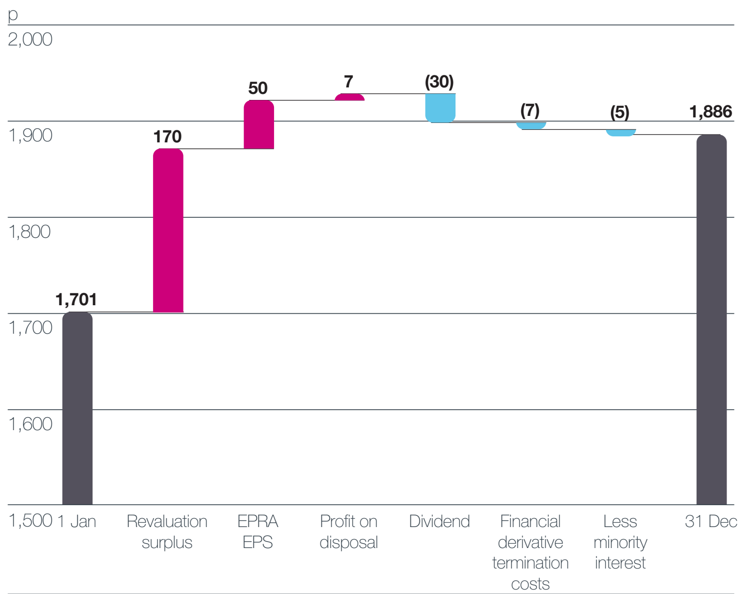
Investment property, net assets and gearing



EPRA net asset value

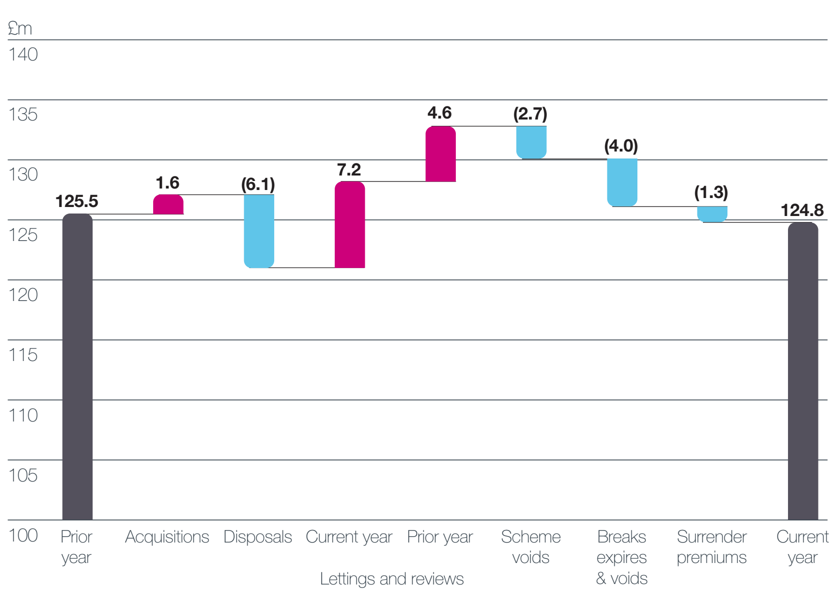
	2012 £m	**per share p**	2011 £m	per share p
Net assets	**1,918.0**		1,714.5	
Less minority interest	**(57.6)**		(51.8)	
Net assets attributable to equity shareholders	**1,860.4**	**1,824**	1,662.7	1,636
Adjustment for:				
Deferred tax on revaluation surplus	**4.1**		8.8	
Less share of minority interest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

EPRA net asset value per share p



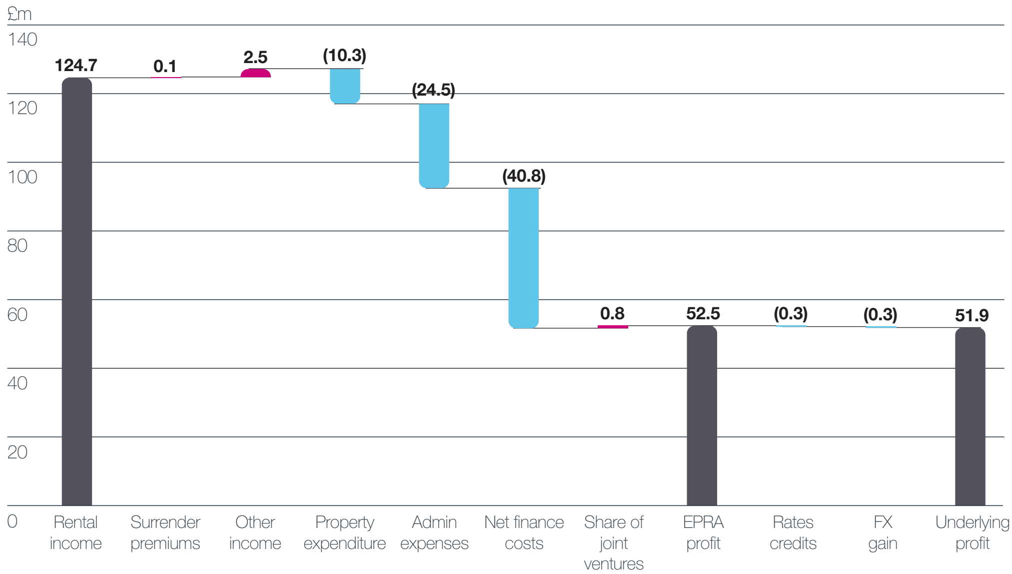
	1 Jan	Revaluation surplus	EPRA EPS	Profit on disposal	Dividend	Financial derivative termination costs	Less minority interest	31 Dec
2012	**1,701**	**170**	**50**	**7**	**(30)**	**(7)**	**(5)**	**1,886**
2011	1,474	169	51	36	(25)	–	(4)	1,701

Gross property income £m



	Prior year	Acquisitions	Disposals	Lettings and reviews: Current year	Lettings and reviews: Prior year	Scheme voids	Breaks expires & voids	Surrender premiums	Current year
2012	**125.5**	**1.6**	**(6.1)**	**7.2**	**4.6**	**(2.7)**	**(4.0)**	**(1.3)**	**124.8**
2011	119.4	7.2	(1.6)	6.0	4.3	(4.4)	(6.2)	0.8	125.5

EPRA profit £m



	Rental income	Surrender premiums	Other income	Property expenditure	Admin expenses	Net finance costs	Share of joint ventures	EPRA profit	Rates credits	FX gain	Underlying profit
2012	**124.7**	**0.1**	**2.5**	**(10.3)**	**(24.5)**	**(40.8)**	**0.8**	**52.5**	**(0.3)**	**(0.3)**	**51.9**
2011	124.1	1.4	2.0	(9.8)	(22.8)	(43.2)	0.6	52.3	(1.6)	–	50.7
Variance	0.6	(1.3)	0.5	(0.5)	(1.7)	2.4	0.2	0.2	1.3	(0.3)	1.2

Like-for-like net rental income

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

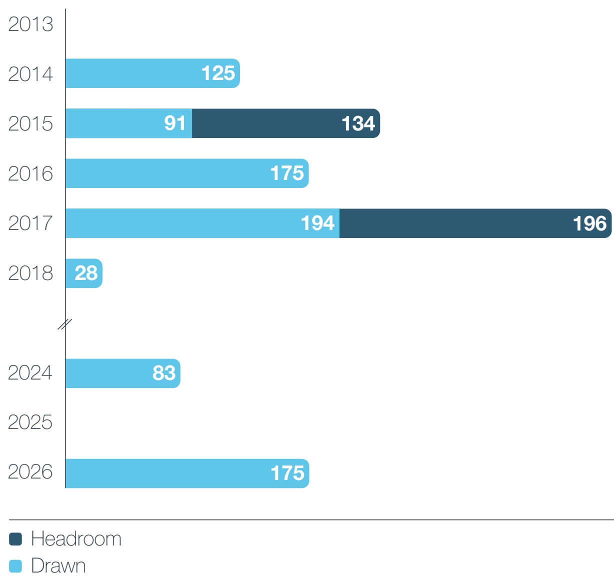
[1] Includes surrender premiums paid or received, dilapidation receipts and other income

Debt facilities

	£m	December 2012 £m	Maturity
6.5% secured bonds		175.0	March 2026
3.99% secured loan		83.0	October 2024
2.75% unsecured convertible bonds		175.0	July 2016
Overdraft		2.5	On demand
Committed bank facilities			
Term	28		June 2018
Term/revolving credit	90		December 2017
Revolving credit	150		January 2017
Revolving credit	150		January 2017
Revolving credit	125		November 2015
Revolving credit	100		April 2015
Term/revolving credit	125		April 2014
		768.0	
Total debt facilities		**1,203.5**	

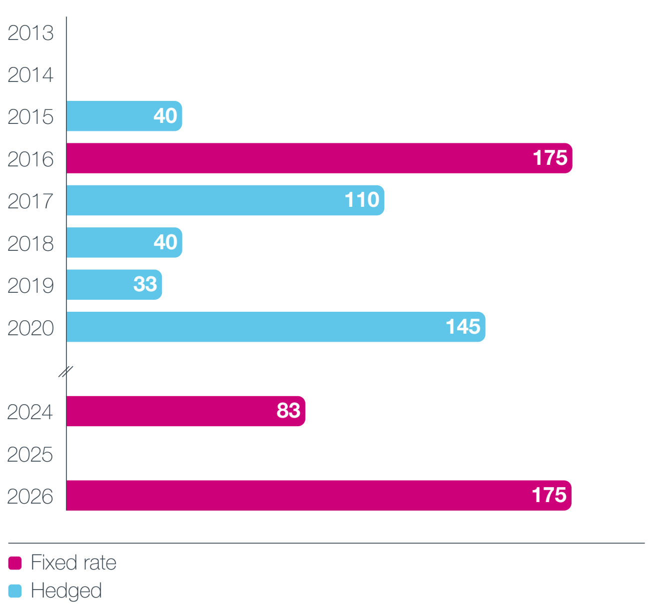
All facilities are secured unless noted otherwise

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



[1] Excludes £2.5m overdraft facility

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



Net debt

	2012 £m	2011 £m
Cash	(4.4)	(3.5)
Bank overdraft	–	–
Revolving bank facilities	437.5	477.0
Secured loan	83.0	–
Unsecured loan	–	31.4
Loan notes	–	1.1
Secured bonds 2026	175.0	175.0
Fair value and issue costs	16.4	17.2
Unsecured convertible bonds 2016	175.0	175.0
Issue costs, equity component and unwinding of discount	(9.9)	(12.6)
Leasehold liabilities	8.9	7.4
Bank loan arrangement costs	(6.7)	(3.5)
Net debt	874.8	864.5

Gearing and interest cover ratio

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

Debt summary

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

[1] Convertible bonds at 2.75%
[2] Convertible bonds on IFRS basis