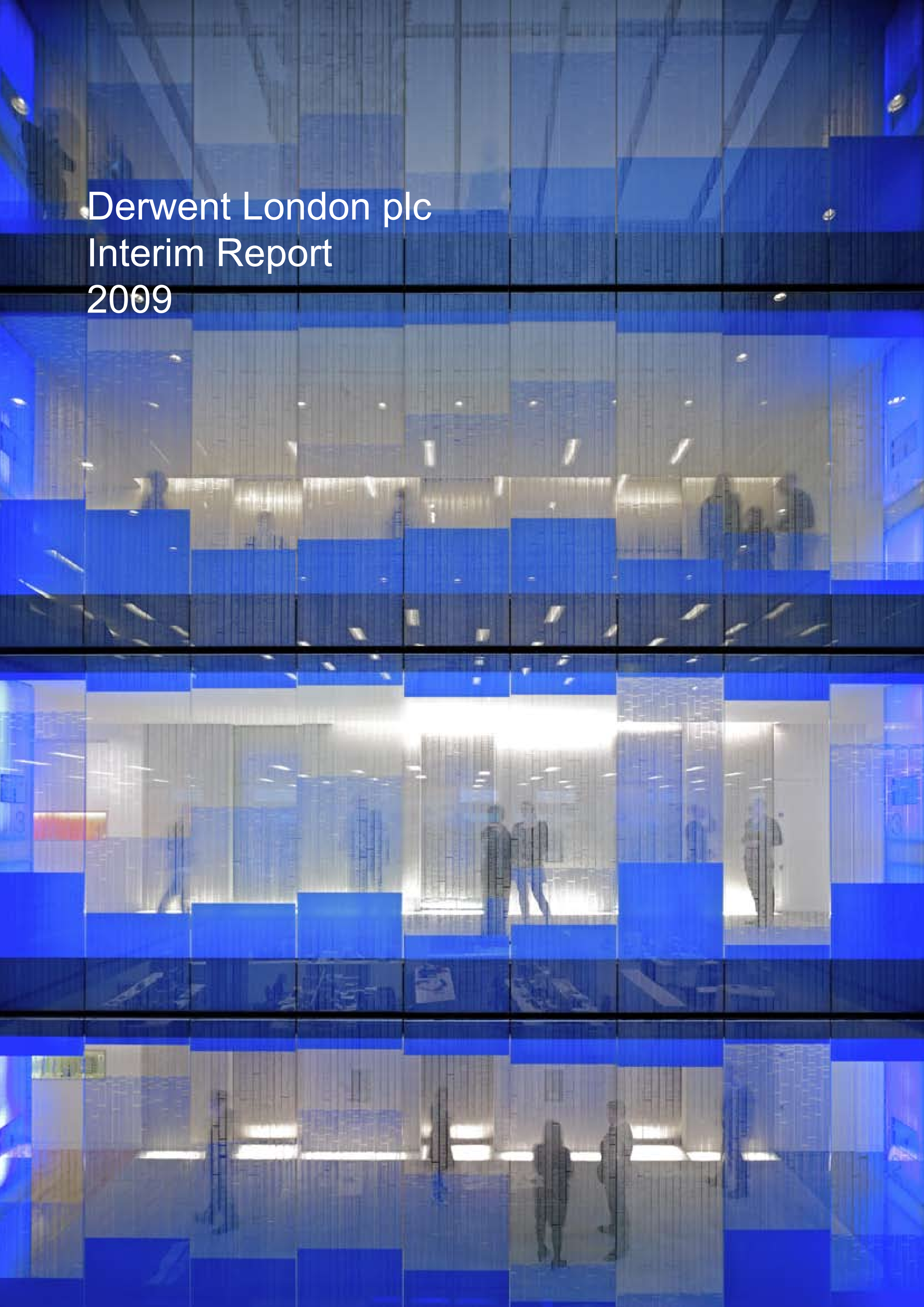
Derwent London plc
Interim Report
2009



25 August 2009

DERWENT LONDON PLC

Interim results for the six months ended 30 June 2009

DERWENT LONDON ANNOUNCES STRONG FIRST HALF RESULTS

Derwent London is pleased to announce a strong set of results for the six months to 30 June 2009 driven by rigorous operational management and its focus on London's West End office market.

Highlights

- Underlying recurring pre-tax profits up 72% to £29.7 million (H1 2008: £17.3 million) driven by enterprising portfolio management
- Adjusted net asset value per share of 993p (31 December 2008: 1,226p)
- Interim dividend maintained at 8.15p per share
- Business model has remained effective with over £110 million of completed or contracted sales since year end
- Continued outperformance against the IPD Central London Office Index reflecting Derwent London's mid-market focus in the West End (underlying valuation decline of the Group's portfolio of 12% compared to 14% reduction in the referenced index)
- Strong lettings performance with 14,400 sq m new lettings in the first half and a further 2,450 sq m since 1 July including 45 Whitfield Street announced today (1,130 sq m)
- Reversionary portfolio with low vacancy rates (3.9%)
- Significant financial headroom and the capacity to step up development activities to capture the upside potential of the next cycle

John Burns, Chief Executive, commented:

"During the first half, rigorous portfolio management helped drive a significant increase in recurring profits while our continued success in both lettings and sales demonstrates the attractiveness of our portfolio to a diverse range of tenants as well as the strength of our business model across the cycle.

"We have made a strong start to the second half. I am encouraged by continued evidence of yield stabilisation and the demand we are seeing for our properties as demonstrated again today by the letting of 45 Whitfield Street. Derwent London retains significant financial fire power and this, combined with the flexibility we have to initiate developments for delivery in late 2011 or 2012, means we are well placed to catch the next stage of the cycle and build on our track record of delivering long term value to our shareholders."

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DERWENT LONDON INTERIM REPORT 2009

Chairman's statement

Overview

Since the year end, there has been little respite from the recessionary conditions that characterised the economy throughout the second half of 2008. The concerted measures taken by governments around the world appear to have steadied the financial sector, but activity in the real economy remains subdued.

For the property industry, this has resulted in a further decline in values. Although yields are showing signs of having stabilised, assisted by an improvement in the capital and property investment markets, concern over tenant demand, and a consequential reduction in estimated rental values, has resulted in a fall of 14% in the IPD Central London Offices Capital Growth Index since 31st December 2008.

However, the group entered 2009 well positioned to face these difficult market conditions. The board had taken early action to reduce capital expenditure, void space was low, £128 million of bank facilities had been renewed in 2008 and the group had considerable margin over its bank covenants. During the first half of the year, we focussed successfully on harbouring the group's resources, exploiting some of the reversionary potential of our portfolio, and renewing another £125 million bank facility.

Results

Adjusted net asset value per share attributable to equity shareholders at 30th June 2009 was 993p, 19% lower than the year end figure of 1,226p.

The underlying valuation movement for the first half was a reduction of 12.0% which represents an outperformance of the IPD index referred to above. At 30th June 2009, the investment portfolio, 93% of which is located in central London, was valued at £1.86 billion. This reflects a decline of £253.7 million before lease incentive adjustments of £5.2 million. Those properties held throughout the period, excluding development properties, were valued at £1.74 billion, a fall of £229 million (11.6%).

The portfolio's initial yield, based on the annualised contracted rents after rent free periods, increased to 6.8% at the half year from the 2008 year end figure of 6.0%. The yield rises on full reversion to 7.6%, showing that the portfolio remains reversionary.

The underlying recurring profit before tax showed a substantial rise in the first half of 2009 compared with the equivalent period in 2008. Such profits rose from £17.3 million to £29.7 million, an increase of 72%, if adjustment is made for the 2008 reverse surrender premium and the foreign exchange translation movements in both years. The recurring profit before tax before these adjustments was £33.3 million compared with £9.0 million in 2008. Evidence of the lettings concluded in 2008 can be seen in the £5.6 million (9.7%) rise in gross property income, while property outgoings benefited from a detailed review of the group's rates expenditure of this and prior years which reduced the liability by £2.6 million in the period. These, together with the absence of the 2008 reverse surrender premium at Grosvenor Place and the trading stock write-down, have contributed to a rise in net property income of £17.7 million to £59.3 million. The recurring profits were further enhanced by a £4.1 million reduction in finance costs, mainly due to lower interest rates.

Despite the £24.3 million increase in recurring profits, the group has reported a loss before taxation of £223.3 million compared with a loss of £144.7 million in the first half of 2008. This is predominantly due to the property revaluation deficit of £258.9 million, with a further £1.3 million arising in the joint ventures. Finally, there was a tax credit of £12.1 million after claims for relief of tax losses were agreed by HMRC during the period.

As described more fully in the business review, despite reduced asset values, the group's financing position remains sound. Group net debt was £16 million lower at the half year than at the year end, and the sales we have already achieved in the second half (£71 million to date) should ensure that, without any further acquisitions, debt at the 2009 year end will be lower. At the half year, our balance sheet gearing was 86.2%, our loan to value ratio was 44.3%, and we had £309 million of undrawn, committed bank facilities.

Dividend

In the 2008 report and accounts, the board set out its revised dividend policy which committed it to at least maintain the current level of dividend, with a view to returning to a progressive dividend policy when markets improved. Accordingly, the board has maintained the interim dividend at last year's level of 8.15p per share which will be paid as a property income dividend. Payment will be made on 6th November 2009 to shareholders on the register at the close of business on 2nd October 2009.

Market and activity update

With underlying business activity continuing to contract, tenant demand has been muted even in our main operating area, London's West End. In this environment, our proactive approach to lettings and asset management, and our focus on cash generation is of increased importance. We continue to develop close relationships with tenants as an active landlord and this, together with our lettings, successful retention of tenants and minimal tenant default, has enabled the group to maintain a low vacancy rate of 3.9% by rental value (31st December 2008 – 3.8%).

Whilst letting terms have continued to move in favour of tenants, we have let 14,400 sq m of space in the first half, including the last office space at Qube. This illustrates that there remains demand for the group's particular brand of high quality space at mid-market rents. These lettings will produce total rental income of £4.6 million per annum and have been achieved at rents approximately 10% below those underlying the December valuation, a reflection of current market conditions.

There has been some improvement and activity in the property investment market, particularly for properties let on long leases to strong covenants, driven by purchasers who require limited debt finance. To take advantage of this, the board implemented a targeted sales programme of non-core assets and, including compulsory purchases, we have, since the year end, either completed or exchanged contracts on disposals to a value of £110.2 million, before costs. This demonstrates the success of our model of recycling capital even in these challenging markets. The most significant transactions were the sale of a property on our Fitzrovia estate to the occupier for £60 million and the compulsory purchase of two properties at the junction of Oxford Street and Charing Cross Road as part of the Crossrail Project. Whilst overall the sales realised £9.8 million less than the December 2008 valuation (before costs), this is balanced by the benefit derived from releasing capital at a time when new finance is difficult and expensive to source.

No material acquisitions were made in the first half. Despite the group being well funded, the potential within our existing portfolio which stems from its low average rent of £269 per sq m, low capital value of £3,630 per sq m and significant development opportunities, means that we can be selective when it comes to evaluating acquisitions.

The group incurred £42 million of capital expenditure in the period, predominantly on its three major schemes at the Angel Building (Islington), Arup Phase III (Fitzrovia) and Gresse Street (Noho). Overall, nearly 60% of the floorspace of these schemes is pre-let. Committed capital expenditure on these projects is £66 million which can be met comfortably from our existing financial resources. All three projects are progressing according to plan and budget.

During the period, the group submitted two significant planning applications which, if successful, will enhance our extensive pipeline of future projects. With the flexibility provided by the short-term occupancy of the development properties, we will be considering which schemes to commence in order to deliver them into the market in 2011 or 2012, when we expect conditions to have improved.

Prospects

While the timing and strength of any economic recovery is uncertain, the group continues to benefit from the inherent strengths of both its portfolio and its market. London remains one of the key global commercial hubs and draws an eclectic mix of business to its centre, creating a more durable demand and a diversified tenant base. In addition, a difficult planning regime and limited new development, provides the West End with a unique defensive quality.

This, combined with our strong balance sheet, enables us not only to face the demanding future with confidence, but also to be in a position to take advantage of value enhancing opportunities as we identify them.

R. A. Rayne
25th August 2009

Business review

The ongoing turbulence in the global economy continued to adversely affect the UK property market during the first half of 2009. The central London office market, our chosen operating area, saw half year take-up of 259,000 sq m, 50% lower than the long-term average. As a consequence, vacancy rates continued to increase, rent free periods moved out and significant declines in rental values were reported across all London villages.

At the year end, we stressed the importance of active portfolio and asset management in this difficult operating environment and we have made good progress with both in the year to date. The group has achieved a strong letting performance, maintained a low vacancy rate and concluded a number of disposals. The portfolio continues to be let off a low average rent of £25 per sq ft (£269 per sq m) and this helps to insulate the group against the rental market declines whilst providing an upside opportunity for when the market recovers.

Valuation

With the continuing weakness of the UK economy and the limited supply of bank lending, the investment market for most of the first half of 2009 was characterised by low turnover and falling capital values. In our interim management statement released in May, we noted that there were tentative signs that some property yields were beginning to show stability, especially on properties with secure income from long leases and strong covenants. This trend has continued, and the investment market has improved, although investor concerns in recent months have shifted away from yield levels to the valuation impact caused by the decline in rental values.

Against this background, the group's investment portfolio was valued at £1.86 billion on 30th June 2009. Over the six month period, there was a valuation deficit of £253.7 million, before lease incentives of £5.2 million. The value of those properties held throughout the period, excluding development properties, was £1.74 billion. These declined by 11.6%, which equates to a valuation deficit of £229 million. The development properties were valued at £114 million, which reflects a decrease of 17.8% or £25 million.

The underlying valuation decline for the first half of the year was 12.0%. This was an outperformance against the IPD Quarterly Property Index for Central London Offices, which showed a reduction of 14.0%, and followed an outperformance against this Index in 2008.

The West End properties, which comprised 73% of the portfolio, decreased in value by 12.7% and the City Border properties, forming 20% of the portfolio, by 11.8%. Provincial properties, the balance of the portfolio, declined by 5.4%. The portfolio's underlying estimated rental value fell by 11.0% over the first half of the year, compared to a 4.6% decrease in the second half of 2008. The weakening rental environment was the primary factor in the valuation movement over the period. However, middle market rental properties, where the group is predominantly focused, continued to be more resilient. Estimated rental values for West End offices of between £30-£50 per sq ft (£323-538 per sq m) reduced by 12% over the half year, compared to a 19% decline for £50+ per sq ft (£538+ per sq m).

As at 30th June 2009, the portfolio's initial yield, based upon the annualised contracted rent and expiry of rent free periods, was 6.8% rising to 7.6% on full reversion. This compares to 6.0% and 7.6% respectively at the year end. The true equivalent yield increased from 7.1% to 7.3% over the half year. This is the smallest yield movement since June 2007, when values were at their peak, and is an indication that yields are beginning to stabilise.

The total property return for the portfolio was a negative 9.6% for the half year. However, this outperformed our benchmark measure, the IPD Quarterly Property Total Return Index for Central London Offices, which saw a negative return of 11.1%.

Lettings

Letting activity for the group in the first half of the year was robust, in contrast to the weak take-up statistics seen generally across the central London office market. During the period, we concluded 50 leasing transactions against 32 for the same period in 2008. Lettings totalled 14,400 sq m which will generate a rental income of £4.6 million per annum. The major letting during the half year was at the Qube, Fitzrovia where 2,900 sq m over the fourth and fifth floors was let to EDF Energy for a 15-year term at £1.48 million per annum (£47 per sq ft / £506 per sq m). There are tenant break options after five and ten years. A rent free period of 21 months was granted with a further four months if the fifth year break is not exercised. If the break is exercised, the tenant will pay a penalty equivalent to nine months rent. Also at the Qube, 600 sq m was let to ScanSafe for a 10-year term, following which the office space in the property was fully let.

As anticipated, with weakening tenant demand, letting rental levels were 9.6% lower than the 31st December 2008 estimated rental values. They were 7.7% lower if short term lettings, which serve to keep future development properties income producing, are excluded. These levels compare favourably to a 15.8% rental decline in the IPD Central London Office Index and a 19.4% decrease in the CBRE Central London Office Index over the period.

Half of the space that was available at the year end has now been let and this accounted for 85% of the first half year lettings. This activity underlines our pro-active approach to letting and demonstrates that our attractive, well-priced, mid-market space continues to find tenants, even in this difficult market.

Since the half year, a further 5,100 sq m of floorspace with an annual rental income of £1.4 million has been either let or placed under offer.

As reported in the first quarter interim management statement, the group's vacancy rate (by estimated rental value) increased from 3.8% at the start of the year to 4.2%. Subsequently, with further letting progress, our vacancy rate decreased to 3.9% at the half year, which is below the group's ten-year average of 5.1%. The vacancy rate will increase to 5.4% upon completion of the Gresse Street development later this year.

Asset management

The momentum of active asset management continues and during the first six months of the year, we concluded 29 lease renewals and 30 rent reviews at rents of £1.5 million and £5.6 million per annum respectively. These levels reflected a £1.2 million uplift over the previous rents, a 20.9% increase, albeit the rents achieved were 7.8% below the 31st December 2008 estimated rental values.

During the half year, there were 27 lease break options and 53 lease expiries across the portfolio, equating to a rent of £4.9 million per annum or 3.9% of the group's annualised contracted rental income. Of this income, 46% was retained, 11% was vacated and re-let, and 43% remains available. Nearly half of this available space was from a single tenant's lease expiry of 2,100 sq m at 1-3 Grosvenor Place, resulting in the loss of £1.0 million of annual rental income.

The group's rent collection remained strong during the period with 96.0% of rent collected within 14 days of the quarter date (Q1: 96.5%, Q2: 95.4%). This was above our key performance indicator target of 95%. Additionally, tenant defaults remain low with 10 tenants going into administration resulting in a loss of income of £0.1 million in the period.

The group's tenant profile covers a wide range of business sectors including 40% professional and business services, 22% media, 15% retail and leisure, 7% government and 7% financial. The overall weighted average unexpired lease length was 8.0 years (8.3 years at year end 2008).

Project update

We have three schemes under construction, two of which are scheduled to complete this year.

- 17 Gresse Street, Noho – 4,400 sq m office development due to complete in October. This state of the art, seven-storey building, which is designed to be multi-let, is attracting tenant interest.

- Arup Phase III, 8 Fitzroy Street, Fitzrovia – 7,900 sq m office building, due to complete at the end of the year. This is now fully clad and internal fit-out works are underway. The entire building is pre-let to Arup at £3.6 million per annum (£42 per sq ft / £452 per sq m) on a 25-year term with no lease breaks. The tenant is currently paying £1.2 million per annum during the construction period.

- Angel Building, Islington – 24,400 sq m office redevelopment due to complete in summer 2010. The striking form of this new building is now taking shape as extensions and cladding works are nearing completion. A major proportion of the building has been pre-let to Cancer Research UK. Whilst completion is still a year away, interest in the balance of the space is encouraging.

The total cost to complete these three projects is £65.5 million.

We continue to upgrade the portfolio through a number of smaller projects and rolling refurbishments. These include a 26-room boutique hotel at the Tea Building (pre-let to Soho House at £0.3 million per annum), a 1,100 sq m office refurbishment at 45-51 Whitfield Street on our Fitzrovia estate (pre-let since the half year at £0.3 million per annum) and an 11-unit residential development at 7-8 Rathbone Place (adjacent to the 17 Gresse Street development).

Whilst we are not currently progressing any major new projects, our planning work continues and we have recently submitted two important planning applications – a 7,100 sq m new-build office at The Turnmill in Clerkenwell and a 458-unit student accommodation building at 60 Commercial Road in Shoreditch. If successful, these two applications, totalling 17,900 sq m, would bring our total planning consents to 92,300 sq m. This diverse and impressive selection of exciting future schemes would increase the floorspace of the existing properties by 57,800 sq m (167%).

Disposals

During the first half of the year, demand for both long-term, secure income investments and smaller properties improved. The group took advantage of this opportunity to make selective disposals of non-core assets with 20 properties sold in the period for £39.1 million, after costs. Disposals were 8% below the 31st December 2008 valuation. The principal disposals in the first half were 28 Dorset Square in Marylebone for £16.8 million, after costs, reflecting a net initial yield of 6.1% and a 4% premium over the December 2008 valuation, and the Astoria and 17 Oxford Street in Soho, which were compulsory purchased as part of the Crossrail project. To date, we have received interim proceeds of £14.4 million with the final payment subject to formal valuation. The sale of 17 smaller properties realised £7.9 million.

Since the half year end, the group has either sold or exchanged contracts for the disposal of a further 13 properties which will realise £70.7 million, before costs. The largest of these was the sale for £60.0 million of Arup Phase I, 13 Fitzroy Street, which was let at £4.5 million per annum. This transaction, due to complete in September, represented a net initial yield of 7.0% and was concluded at 9.8% below the December 2008 valuation.

Debt and cash flow

The severity of the economic downturn, and falling capital values in the real estate sector, means that cash flow has assumed an even greater importance than under normal circumstances. Action has been taken on a number of levels to minimise the cash demands on the business. At an early stage, one of the group's main cash outflows, capital expenditure, was reduced and, on a different scale, a review of current and historic rates bills has saved £2.6 million. Meanwhile, recycling of capital has continued with the £39.3 million proceeds from the disposal of a number of investment properties effectively financing the half year's capital expenditure of £44.9 million. Three ongoing projects accounted for £34.2 million of capital expenditure: the Angel Building, 17 Gresse Street and Arup Phase III. Investing activities resulted in a cash inflow of £0.9 million. The group's operating activities – rent receivable less interest and expenses – generated net cash of £30.6 million out of which the payment of the 2008 final dividend absorbed £15.7 million. As a result, we were able to reduce net debt by £16.1 million to £849.3 million at June 2009.

Despite lower borrowings, falling property values have led to increases in the key debt ratios although, even at these higher levels, the group continues to operate well within its banking covenants, and retains considerable available committed facilities. At the half year, the group's loan to value ratio was 44.3% compared with the year end figure of 39.7%, while balance sheet gearing increased from 71.2% to 86.2%. Both these ratios will benefit from the £71 million of disposals due to be completed by the end of September. These also will increase the facilities available to the group, which stood at £309 million at the end of June 2009.

The strength of the group's balance sheet, together with the flexibility of its borrowings, has enabled it to manage the problems associated with such a severe and rapid downturn in the business cycle. Going forward, the group requires security valued at £1.58 billion to fully draw its debt facilities. This figure compares with the fair value of the investment properties at June 2009 of £1.86 billion. But a better indication of the soundness of the finances is that, based on current group forecasts, the security value required to support the 31st December 2011 projected debt is only £1.16 billion. Therefore, property values would have to fall a further 38% from June 2009 levels before that figure is reached. These figures assume no acquisitions, and no disposals other than those currently contracted.

The group has concluded its round of refinancings of existing bank debt with the signing in April 2009 of a new £125 million, five year facility with the existing lender. The next debt maturity is in December 2011.

Although interest rates remain at historically low levels, the yield curve shows an expectation of sharply rising rates whereby LIBOR could be approaching 4.5% within three years. While this occurrence, and its timing, is debatable, it is to protect against this uncertainty, and to lower financial risk, that the group has maintained its hedging programme. At 30th June 2009, approximately 71% of debt was either fixed or hedged. This results in a current weighted cost of debt of 4.5%, inclusive of costs and margins. The derivatives used to hedge the interest rate exposure are fair valued at each reporting date and, in the period to end June 2009, the group income statement showed a gain of £7 million arising from this valuation, although this only reduces the cumulative liability in the balance sheet to £20 million. The fair value adjustment of the fixed rate bond does not need to be taken into the group income statement. The bond was valued at £156 million at June 2009 resulting in no gain or loss for the period, which compares with the gain of £2.2 million for the first half of 2008 and a gain for the year ended December 2008 of £18.7 million. The bond was fair valued upon acquisition of LMS and it is this valuation which is included in the balance sheet with the fair value adjustment being amortised over the life of the bond.

J. D. Burns
25th August 2009

Responsibility statement

The directors confirm to the best of their knowledge:

(a) The condensed set of financial statements, which has been prepared in accordance with IAS 34 "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and profit of the group; and

(b) The interim management report includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the UK Financial Services Authority.

On behalf of the board

J. D. Burns	C. J. Odom	
Chief Executive Officer	Finance Director	25th August 2009

GROUP CONDENSED INCOME STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.09 £m**	Half year to 30.06.08 £m	Year to 31.12.08 £m
Gross property income		**63.1**	57.5	119.0
Development income		**-**	0.5	0.5
Other income		**0.6**	0.1	0.9
Total income	4	**63.7**	58.1	120.4
Property outgoings		**(4.4)**	(7.2)	(14.6)
Reverse surrender premium		**-**	(8.3)	(8.3)
Write-down of trading property		**-**	(1.0)	(2.0)
Total property outgoings		**(4.4)**	(16.5)	(24.9)
Net property income		**59.3**	41.6	95.5
Administrative expenses		**(9.1)**	(9.5)	(18.3)
Movement in valuation of cash-settled share options		**(0.7)**	1.1	1.6
Total administrative expenses		**(9.8)**	(8.4)	(16.7)
Revaluation deficit		**(258.9)**	(163.8)	(602.1)
(Loss)/profit on disposal of investment properties	5	**(3.4)**	2.1	1.2
Loss from operations		**(212.8)**	(128.5)	(522.1)
Finance income	6	**4.3**	0.4	1.7
Finance costs	6	**(20.0)**	(24.1)	(57.2)
Movement in fair value of derivative financial instruments		**7.0**	7.8	(28.1)
Share of results of joint ventures	7	**(1.8)**	(0.3)	(0.8)
Loss before tax		**(223.3)**	(144.7)	(606.5)
Tax credit	8	**12.1**	2.2	9.3
Loss for the period		**(211.2)**	(142.5)	(597.2)
Attributable to:				
- Equity shareholders		**(207.8)**	(139.4)	(586.4)
- Minority interest		**(3.4)**	(3.1)	(10.8)
Loss per share	9	**(206.13)p**	(138.42)p	(581.99)p
Diluted loss per share	9	**(206.13)p**	(138.42)p	(581.99)p

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Loss for the period	**(211.2)**	(142.5)	(597.2)
Actuarial deficit on defined benefit pension scheme	**(0.4)**	(0.6)	(2.1)
Foreign currency translation	**(3.6)**	-	8.2
Other comprehensive income recognised directly in equity	**(4.0)**	(0.6)	6.1
Total comprehensive income relating to the period	**(215.2)**	(143.1)	(591.1)
Attributable to:			
- Equity shareholders	**(211.8)**	(140.0)	(580.3)
- Minority interest	**(3.4)**	(3.1)	(10.8)

GROUP CONDENSED BALANCE SHEET (UNAUDITED)

	Note	**30.06.09 £m**	30.06.08 £m	31.12.08 £m
Non-current assets				
Investment property	10	**1,718.9**	2,496.8	2,068.1
Property, plant and equipment	11	**1.3**	1.4	1.2
Investments		**5.5**	8.4	7.6
Pension scheme surplus		**0.6**	2.5	1.0
Derivatives	13	**-**	9.1	-
Other receivables		**32.1**	25.1	29.0
		1,758.4	2,543.3	2,106.9
Current assets				
Trading properties	12	**7.5**	8.4	7.5
Trade and other receivables		**33.0**	55.5	38.7
Cash and cash equivalents		**9.0**	5.8	10.5
		49.5	69.7	56.7
Non-current assets held for sale	10	**110.2**	-	17.5
		159.7	69.7	74.2
Total assets		**1,918.1**	2,613.0	2,181.1
Current liabilities				
Bank overdraft and loans	13	**4.3**	100.0	106.6
Trade and other payables		**44.4**	54.9	47.6
Corporation tax liability		**2.6**	11.4	7.1
Provisions		**0.5**	0.2	0.2
		51.8	166.5	161.5
Non-current liabilities				
Borrowings	13	**854.0**	751.7	769.3
Derivatives	13	**19.9**	-	26.9
Provisions		**1.6**	1.8	1.2
Deferred tax liability	14	**6.1**	10.3	7.2
		881.6	763.8	804.6
Total liabilities		**933.4**	930.3	966.1
Total net assets		**984.7**	1,682.7	1,215.0
Equity				
Share capital		**5.0**	5.0	5.0
Share premium		**156.2**	157.0	156.2
Other reserves		**921.2**	914.4	923.4
Retained earnings		**(129.7)**	550.9	95.0
Equity shareholders' funds		**952.7**	1,627.3	1,179.6
Minority interest		**32.0**	55.4	35.4
Total equity		**984.7**	1,682.7	1,215.0

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Balance at 1st January 2009	5.0	156.2	923.4	95.0	1,179.6	35.4	1,215.0
Total comprehensive income for the period	-	-	(3.6)	(208.2)	(211.8)	(3.4)	(215.2)
Share-based payments expense transferred to reserves	-	-	1.4	-	1.4	-	1.4
Dividends paid	-	-	-	(16.5)	(16.5)	-	(16.5)
Balance at 30th June 2009	**5.0**	**156.2**	**921.2**	**(129.7)**	**952.7**	**32.0**	**984.7**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Balance at 1st January 2008	5.0	157.0	914.0	706.0	1,782.0	59.9	1,841.9
Total comprehensive income for the period	-	-	-	(140.0)	(140.0)	(3.1)	(143.1)
Share-based payments expense transferred to reserves	-	-	0.4	-	0.4	-	0.4
Purchase of minority interest	-	-	-	-	-	(0.4)	(0.4)
Dividends paid	-	-	-	(15.1)	(15.1)	(1.0)	(16.1)
Balance at 30th June 2008	5.0	157.0	914.4	550.9	1,627.3	55.4	1,682.7

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Balance at 1st January 2008	5.0	157.0	914.0	706.0	1,782.0	59.9	1,841.9
Total comprehensive income for the period	-	-	8.2	(588.5)	(580.3)	(10.8)	(591.1)
Share-based payments expense transferred to reserves	-	-	1.2	-	1.2	-	1.2
Transfer between reserves in respect of performance share plan	-	(0.8)	-	0.8	-	-	-
Purchase of minority interest	-	-	-	-	-	(0.4)	(0.4)
Dividends paid	-	-	-	(23.3)	(23.3)	(13.3)	(36.6)
Balance at 31st December 2008	5.0	156.2	923.4	95.0	1,179.6	35.4	1,215.0

GROUP CONDENSED CASH FLOW STATEMENT (UNAUDITED)

	Half year to 30.06.09 £m	Half year to 30.06.08 Restated* £m	Year to 31.12.08 £m
Operating activities			
Cash received from tenants	**67.6**	57.0	109.6
Development income	**-**	13.1	14.1
Direct property expenses	**(5.9)**	(17.1)	(22.8)
Cash paid to and on behalf of employees	**(5.5)**	(8.0)	(10.3)
Other administrative expenses	**(4.0)**	(3.6)	(5.9)
Interest received	**0.5**	1.5	2.9
Interest paid	**(21.1)**	(23.1)	(48.5)
Tax expense paid in respect of operating activities	**(1.0)**	(0.1)	(0.8)
Net cash from operating activities	**30.6**	19.7	38.3
Investing activities			
Acquisition of investment properties	**(1.5)**	(16.9)	(31.9)
Capital expenditure on investment properties	**(44.9)**	(44.4)	(72.9)
Disposal of investment properties	**39.3**	55.3	72.6
Purchase of property, plant and equipment	**(0.2)**	(0.1)	(0.2)
Disposal of property, plant and equipment	**-**	-	0.2
Receipts/(payments) in relation to joint ventures	**0.1**	(0.3)	-
Purchase of minority interest	**-**	(0.4)	(0.4)
Advances to minority interest holder	**-**	(2.5)	(4.2)
REIT conversion charge	**-**	(53.6)	(53.6)
Tax expense received/(paid) in respect of investing activities	**8.1**	(8.1)	(8.1)
Net cash from/(used in) investing activities	**0.9**	(71.0)	(98.5)
Financing activities			
Net movement in revolving bank loans	**(18.0)**	67.2	86.2
Repayment of non-revolving bank loans	**-**	(28.0)	(28.0)
Drawdown of non-revolving bank loans	**0.5**	56.4	56.8
Repayment of loan notes	**(0.5)**	(28.4)	(28.8)
Dividend paid to minority interest holder	**-**	(1.0)	(1.0)
Dividends paid	**(15.7)**	(13.5)	(22.5)
Net cash (used in)/from financing activities	**(33.7)**	52.7	62.7
(Decrease)/increase in cash and cash equivalents in the period	**(2.2)**	1.4	2.5
Cash and cash equivalents at the beginning of the period	**6.9**	4.4	4.4
Cash and cash equivalents at the end of the period	**4.7**	5.8	6.9

* See note 19

NOTES TO THE FINANCIAL STATEMENTS

1 The comparative financial information presented herein for the year ended 31st December 2008 does not constitute full statutory accounts within the meaning of Section 240 of the Companies Act 1985. The group's annual report and accounts for the year ended 31st December 2008 have been delivered to the Registrar of Companies. The group's independent auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or 237(3) of the Companies Act 1985. The financial information for the half years ended 30th June 2009 and 30th June 2008 are unaudited.

The financial information in these condensed financial statements is that of the holding company and all of its subsidiaries (the group) together with the group's share of its joint ventures. It has been prepared in accordance with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual report and accounts for the year ended 31st December 2008 which have been prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. The accounting policies applied by the group in these condensed financial statements are the same as those applied by the group in its financial statements for the year ended 31st December 2008 and which will form the basis of the 2009 financial statements.

A number of new and amended standards become effective for periods beginning on or after 1st January 2009. The principal changes that are relevant to the group are:

IFRS 8 – Operating Segments

IFRS 8 is a disclosure standard only; there has been no effect on the reported results or previous financial position of the group. The group's reportable segment as reported under IAS 14 has remained unchanged following the adoption of this standard.

IAS 1 (revised 2007) – Presentation of Financial Statements

The revised standard has proposed a number of terminology changes (including revised titles for the primary statements and minority interest) and has resulted in the following change in presentation and disclosure:

- The statement of changes in equity is now a primary statement, and not part of the notes to the financial statements.

The group has not chosen to adopt the optional changes to the headings of the income statement, balance sheet and cash flow statement. There has been no effect on the reported results or previous financial position of the group.

In addition, in accordance with IAS 34, Interim Financial Reporting, these half year results are now described as condensed financial statements and each of the primary statements, whilst they do not differ in content from those at the year end, are also described as condensed.

None of the other new standards and amendments are expected to materially affect the group.

The group's results are not materially affected by seasonal variations.

2 Significant judgments, key assumptions and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements. These are the same policies identified at the previous year end and a full discussion of these policies is included in the 2008 financial statements.

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

3 Segmental reporting

During the period, the group had only one (half year to 30th June 2008: one; year to 31st December 2008: one) business activity, that being property investment, refurbishment and redevelopment. It operates only in the United Kingdom and the directors consider that all properties carry a similar risk profile.

4 Total income

Gross property income includes surrender premiums received from tenants during the half year to 30th June 2009 of £nil (half year to 30th June 2008: £0.2m; year to 31st December 2008: £0.2m). The balance of £63.1m (half year to 30th June 2008: £57.3m; year to 31st December 2008: £118.8m) is derived solely from rental income from the group's properties. Of these amounts, £2.1m (half year to 30th June 2008: £2.1m; year to 31st December 2008: £4.2m) was derived from a lease to BT of the Angel Building, EC1, where in March 2007, the group entered into an arrangement with BT to restructure the lease arrangements such that the group could obtain possession of the building whilst maintaining rental income from BT until March 2010 (albeit that if the group disposed of this property, the right to that rental income would pass to the purchaser). The group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments).

The development income of £nil (half year to 30th June 2008: £0.5m; year to 31st December 2008: £0.5m) is the proportion of the total profit share estimated to have been earned by the group from the project management of the construction and letting of a property on behalf of a third party.

The other income of £0.6m (half year to 30th June 2008: £0.1m; year to 31st December 2008: £0.9m) relates to fees and commissions earned in relation to the management of the group's properties.

5 (Loss) / profit on disposal of investment properties

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Disposal proceeds	**39.1**	54.8	72.6
Carrying value	**(41.4)**	(52.7)	(71.4)
Adjustment for rents recognised in advance	**(1.1)**	-	-
	(3.4)	2.1	1.2

6 Finance income and costs

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Finance income			
Interest on development funding	**0.2**	0.1	0.1
Return on pension plan assets	**0.1**	0.2	0.8
Foreign exchange gain	**3.6**	-	-
Other	**0.4**	0.1	0.8
Total finance income	**4.3**	0.4	1.7
Finance costs			
Bank loans and overdraft wholly repayable within five years	**13.7**	14.4	35.3
Bank loans not wholly repayable within five years	**0.3**	3.2	0.8
Loan notes	**-**	0.8	0.9
Secured bond	**5.4**	5.4	10.8
Finance leases	**0.3**	0.3	0.6
Pension interest costs	**0.1**	-	0.5
Foreign exchange loss	**-**	-	8.3
Other	**0.2**	-	-
Total finance costs	**20.0**	24.1	57.2

7 Share of results of joint ventures

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Revaluation deficit	**(1.3)**	(0.3)	(1.3)
Other (loss)/profit from operations after tax	**(0.5)**	-	0.5
	(1.8)	(0.3)	(0.8)

8 Tax credit

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Corporation tax credit			
UK corporation tax and income tax on profits for the period	**0.6**	2.5	1.4
Adjustment for over-provision in prior periods	**(11.6)**	(4.2)	(7.1)
	(11.0)	(1.7)	(5.7)
Deferred tax credit			
Origination and reversal of temporary differences	**(1.1)**	(0.5)	(3.6)
	(1.1)	(0.5)	(3.6)
	(12.1)	(2.2)	(9.3)

Of the £11.6m over-provision in prior periods in the half year to 30th June 2009 (half year to 30th June 2008: £4.2m; year to 31st December 2008: £7.1m), £11.9m (half year to 30th June 2008: £0.6m; year to 31st December 2008: £3.8m) relates to losses not recognised in prior years due to the uncertainty of their availability.

The tax credit is lower (half year to 30th June 2008 and year to 31st December 2008: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Loss before tax	**(223.3)**	(144.7)	(606.5)
Expected tax credit based on the standard rate of corporation tax in the UK of 28% (half year to 30th June 2008: 29%; year to 31st December 2008: 28.5%)	**(62.5)**	(42.0)	(172.9)
Difference between tax and accounting profit on disposals	**0.9**	(0.6)	0.6
Difference between tax and accounting profit on derivative financial instruments	**(2.0)**	(2.2)	7.2
Revaluation deficit attributable to REIT properties	**72.5**	47.2	171.6
REIT exempt income and capital items	**(6.6)**	(0.9)	(5.5)
Other differences	**(2.8)**	0.5	(3.2)
Tax (credit)/expense on current period's profit	**(0.5)**	2.0	(2.2)
Adjustments in respect of prior periods' tax	**(11.6)**	(4.2)	(7.1)
	(12.1)	(2.2)	(9.3)

9 (Loss) / earnings per share

	Loss for the period £m	Weighted average number of shares '000	Loss per share p
Half year ended 30th June 2009	(207.8)	100,811	**(206.13)**
Adjustment for dilutive share-based payments	-	-	**-**
Diluted	(207.8)	100,811	**(206.13)**
Half year ended 30th June 2008	(139.4)	100,708	(138.42)
Adjustment for dilutive share-based payments	-	-	-
Diluted	(139.4)	100,708	(138.42)
Year ended 31st December 2008	(586.4)	100,758	(581.99)
Adjustment for dilutive share-based payments	-	-	-
Diluted	(586.4)	100,758	(581.99)

The diluted loss per share for the half year to 30th June 2009 has been restricted to a loss of 206.13p per share, (half year to 30th June 2008: 138.42p loss per share; year ended 31st December 2008: 581.99p loss per share), as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

	(Loss)/profit for the period £m	Weighted average number of shares '000	(Loss)/earnings per share p
Half year ended 30th June 2009	(207.8)	100,811	**(206.13)**
Adjustment for:			
Disposal of investment properties	(8.2)	-	**(8.14)**
Group revaluation deficit	257.5	-	**255.43**
Share of joint ventures' revaluation deficit	1.3	-	**1.29**
Fair value movement in derivative financial instruments	(7.0)	-	**(6.94)**
Minority interests in respect of the above	(5.2)	-	**(5.16)**
Recurring	30.6	100,811	**30.35**
Adjustment for dilutive share-based payments	-	629	**(0.18)**
Diluted recurring	30.6	101,440	**30.17**
Half year ended 30th June 2008	(139.4)	100,708	(138.42)
Adjustment for:			
Disposal of investment properties	(1.2)	-	(1.19)
Group revaluation deficit	162.1	-	160.96
Share of joint venture's revaluation deficit	0.3	-	0.30
Fair value movement in derivative financial investments	(7.8)	-	(7.75)
Development income	(0.4)	-	(0.40)
Minority interests in respect of the above	(3.8)	-	(3.77)
Recurring	9.8	100,708	9.73
Adjustment for dilutive share-based payments	-	513	(0.05)
Diluted recurring	9.8	101,221	9.68
Year ended 31st December 2008	(586.4)	100,758	(581.99)
Adjustment for:			
Disposal of investment properties	(6.2)	-	(6.15)
Group revaluation deficit	597.9	-	593.40
Share of joint venture's revaluation deficit	1.3	-	1.29
Fair value movement in derivative financial instruments	28.1	-	27.89
Development income	(0.5)	-	(0.50)
Minority interests in respect of the above	(11.2)	-	(11.11)
Recurring	23.0	100,758	22.83
Adjustment for dilutive share-based payments	-	435	(0.10)
Diluted recurring	23.0	101,193	22.73

The recurring earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, the profit or loss arising from the disposal of investment properties, the development income and any exceptional costs and income in order to show the underlying trend.

10 Investment property

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1st January 2009	1,722.5	363.1	2,085.6
Acquisitions	-	1.5	1.5
Capital expenditure	36.1	6.2	42.3
Additions	36.1	7.7	43.8
Disposals	(41.4)	-	(41.4)
Revaluation	(208.4)	(50.5)	(258.9)
At 30th June 2009	**1,508.8**	**320.3**	**1,829.1**
Disclosed in:			
Investment property	**1,400.7**	**318.2**	**1,718.9**
Non-current assets held for sale	**108.1**	**2.1**	**110.2**
	1,508.8	**320.3**	**1,829.1**
At 1st January 2008	2,224.1	430.5	2,654.6
Acquisitions	16.2	-	16.2
Capital expenditure	42.2	2.7	44.9
Additions	58.4	2.7	61.1
Disposals	(42.4)	(10.3)	(52.7)
Revaluation	(147.6)	(16.2)	(163.8)
Movement in grossing up of headlease liabilities	-	(2.4)	(2.4)
At 30th June 2008	2,092.5	404.3	2,496.8
At 1st January 2008	2,224.1	430.5	2,654.6
Transfer	(15.0)	15.0	-
Acquisitions	27.8	4.1	31.9
Capital expenditure	61.1	11.9	73.0
Additions	88.9	16.0	104.9
Disposals	(59.8)	(11.6)	(71.4)
Revaluation	(515.7)	(86.4)	(602.1)
Movement in grossing up of headlease liabilities	-	(0.4)	(0.4)
At 31st December 2008	1,722.5	363.1	2,085.6
Disclosed in:			
Investment property	1,705.0	363.1	2,068.1
Non-current assets held for sale	17.5	-	17.5
At 31st December 2008	1,722.5	363.1	2,085.6

Adjustments from fair value to carrying value			
At 30th June 2009			
Fair value	1,542.4	313.2	1,855.6
Adjustment for rents recognised in advance	(33.6)	(1.5)	(35.1)
Adjustment for grossing up of headlease liabilities	-	8.6	8.6
Carrying value	1,508.8	320.3	1,829.1
At 30th June 2008			
Fair value	2,119.0	399.2	2,518.2
Adjustment for rents recognised in advance	(26.5)	(1.5)	(28.0)
Adjustment for grossing up of headlease liabilities	-	6.6	6.6
Carrying value	2,092.5	404.3	2,496.8
At 31st December 2008			
Fair value	1,752.1	355.9	2,108.0
Adjustment for rents recognised in advance	(29.6)	(1.4)	(31.0)
Adjustment for grossing up of headlease liabilities	-	8.6	8.6
Carrying value	1,722.5	363.1	2,085.6

The investment properties were revalued at 30th June 2009 by external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued the properties to a value of £1,827.1m (30th June 2008: £2,490.2m; 31st December 2008: £2,079.6m); other valuers £28.5m (30th June 2008: £28.0m; 31st December 2008: £28.4m).

At 30th June 2009, the historical cost of investment property owned by the group was £2,041.6m (30th June 2008: £2,019.3m; 31st December 2008: £2,054.5m).

11 Property, plant and equipment

	30.06.09 £m	30.06.08 £m	31.12.08 £m
At beginning of period	**1.2**	1.4	1.4
Additions	**0.2**	0.1	0.2
Disposals	**-**	-	(0.2)
Depreciation	**(0.1)**	(0.1)	(0.2)
At end of period	**1.3**	1.4	1.2
Net book value			
Cost or valuation	**3.2**	3.2	3.0
Accumulated depreciation	**(1.9)**	(1.8)	(1.8)
	1.3	1.4	1.2

12 Trading properties

The trading properties were written down by £2.0m in the year to 31st December 2008 (half year to 30th June 2008: £1.0m). No write-down was recognised in the half year to 30th June 2009.

13 Borrowings and derivatives

	30.06.09 £m	30.06.08 £m	31.12.08 £m
Non-current assets			
Derivative financial instruments	**-**	(9.1)	-
Current liabilities			
Bank loans	**-**	100.0	103.0
Overdraft	**4.3**	-	3.6
	4.3	100.0	106.6
Non-current liabilities			
6.5% Secured Bonds 2026	**194.0**	194.6	194.3
Loan notes	**2.7**	3.6	3.2
Bank loans	**619.0**	518.1	534.0
Unsecured loans	**29.7**	28.8	29.2
Leasehold liabilities	**8.6**	6.6	8.6
	854.0	751.7	769.3
Derivative financial instruments	**19.9**	-	26.9
Total liabilities	**878.2**	851.7	902.8
Total net borrowings and derivatives	**878.2**	842.6	902.8

14 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1st January 2009	8.9	(1.7)	7.2
Provided during the period in the group income statement	-	(1.1)	(1.1)
Released during the period in the group income statement	(1.4)	1.4	-
At 30th June 2009	**7.5**	**(1.4)**	**6.1**
At 1st January 2008	13.1	(2.3)	10.8
Provided during the period in the group income statement	(1.7)	1.2	(0.5)
At 30th June 2008	11.4	(1.1)	10.3
At 1st January 2008	13.1	(2.3)	10.8
Provided during the period in the group income statement	-	0.6	0.6
Released during the period in the group income statement	(4.2)	-	(4.2)
At 31st December 2008	8.9	(1.7)	7.2

Deferred tax on the revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment property portfolio as at each balance sheet date. The calculation takes account of indexation on the historic cost of the properties and any available capital losses. Due to the group's conversion to REIT status on 1st July 2007, deferred tax is only provided at each balance sheet date on properties outside of the REIT regime.

15 Dividend

The results for the half year to 30th June 2009 do not include the dividend declared after the end of the accounting period. In respect of these results, a dividend of 8.15p per share (2008 interim: 8.15p; 2008 final: 16.35p) will be paid on 6th November 2009 to those shareholders on the register at the close of business on 2nd October 2009.

16 Net asset value per share

	Net assets £m	Deferred tax on revaluation surplus £m	Fair value of derivative financial instruments £m	Fair value adjustment to secured bonds £m	Adjusted net assets £m
At 30th June 2009	984.7	7.5	19.9	20.5	1,032.6
Minority interests	(32.0)	(0.2)	0.5	-	(31.7)
Attributable to equity shareholders	952.7	7.3	20.4	20.5	1,000.9
Net asset value per share attributable to equity shareholders (p)	**945**	**8**	**20**	**20**	**993**
At 30th June 2008	1,682.7	11.4	(9.1)	21.2	1,706.2
Minority interests	(55.4)	(1.0)	-	-	(56.4)
Attributable to equity shareholders	1,627.3	10.4	(9.1)	21.2	1,649.8
Net asset value per share attributable to equity shareholders (p)	1,614	11	(9)	21	1,637
At 31st December 2008	1,215.0	8.9	26.9	20.9	1,271.7
Minority interests	(35.4)	(0.5)	-	-	(35.9)
Attributable to equity shareholders	1,179.6	8.4	26.9	20.9	1,235.8
Net asset value per share attributable to equity shareholders (p)	1,170	8	27	21	1,226

The number of shares at 30th June 2009 was 100,815,896 (30th June 2008: 100,807,146; 31st December 2008: 100,807,146).

Adjusted net assets excludes the deferred tax on the revaluation surplus, the fair value of derivative financial instruments and the adjustment to the secured bond, on the basis that these amounts are not relevant when considering the group as an ongoing business.

17 Recurring profit before tax

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Loss before tax	**(223.3)**	(144.7)	(606.5)
Adjustment for:			
Disposal of investment properties	**3.4**	(2.1)	(1.2)
Group revaluation deficit	**258.9**	163.8	602.1
Share of joint ventures' revaluation deficit	**1.3**	0.3	1.3
Development income	**-**	(0.5)	(0.5)
Fair value movement in derivative financial instruments	**(7.0)**	(7.8)	28.1
Recurring profit before tax	**33.3**	9.0	23.3

18 Total return

Total return for the half year to 30th June 2009 was negative 17.7% (half year to 30th June 2008: negative 8.3%; year to 31st December 2008: negative 30.6%). Total return is the movement in adjusted net asset value per share, as derived in note 16, plus the dividend per share paid during the period expressed as a percentage of the adjusted net asset value per share at the beginning of the period.

19 Cash flow

The previously reported movement in bank loans figure of £95.6m for the half year to 30th June 2008 has been split between the net movement in revolving bank loans, and the drawdown and repayment of non-revolving bank loans in accordance with IAS 7, Statement of Cash Flows. This change does not affect the overall net cash flow for the half year to June 2008.

20 Post balance sheet events

Since the 30th June 2009, the group has completed or exchanged contracts on the disposal of 13 properties for a total of £70.7m, excluding costs. The estimated loss on these disposals is £7.5m. Of this, £7.2m is contained in the revaluation deficit in the 30th June 2009 group income statement.

21 Risk management and internal control

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

Key to this function is the group's risk register which is reviewed formally once a year. The register is initially prepared by the executive board which, having created the list of risks, collectively assesses the severity of the risk, the likelihood of it occurring and the strength of the controls over the risk. This approach allows the effect of any mitigating procedures to be considered recognising that risk cannot be totally eliminated and that some activities incur inherent risk. The register is then reviewed and commented upon by the audit committee before being considered and adopted by the full board.

The risk register is divided into four parts: strategic risks, corporate risks, property risks and financial risks. During the review, which was conducted in December 2008, no unacceptable residual risks were identified by the board. Some of the more significant risks, together with the controls that operate over that part of the business, are set out below.

Strategic risks

- That the group's strategy is not achieved due to adverse economic influences and/or movements in the central London property investment or occupational market.

The group carries out an annual strategic review covering the next five years and prepares regular rolling forecasts for the next two years. As part of both exercises, the effect that changing the various main underlying assumptions has on the key ratios is considered and the board can vary the group's short term objectives so as to best realise its long term strategic goals. The group's policy of maintaining income from properties until a development starts gives the board flexibility in this regard.

Property risks

- That the cost of the group's development schemes is increased due to delays in the planning process.

  When preparing appraisals for the group's proposed developments, potential delays on the scheme's critical path are identified and the effect quantified. If material, alternative solutions are evaluated. The group uses advisers who are fully aware of the current planning requirements specific to the scheme's location so as to reduce the risk of unforeseen delays.

- That a contractor or major sub-contractor becomes insolvent causing a project to be delayed or otherwise adversely affected.

  Generally the group selects contractors from a pool that are well known to it, and financial information of these companies is regularly reviewed. If the insolvency of a major sub-contractor is seen to present a material risk to the critical path of a project, specific strategies are implemented to mitigate the effect.

- That a major tenant becomes insolvent causing a significant loss of rental income.

  The group's credit committee reviews the financial status of all prospective tenants and decides on the level of security to be obtained, by way of rent on deposit, bank guarantees etc. for those tenants that are approved. The group's asset managers are proactive in collecting amounts due from tenants and maintain regular contact with tenants which enables them to identify early signs of distress. In the current economic environment, the group continues to monitor the need to insure the rent of a limited number of key tenants.

Financial risks

- That the group is unable to raise finance from its preferred sources.

  The group's five year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This enables sources of finance to be identified and evaluated and, to a degree, the finance to be raised as and when market conditions are favourable.

- That the group breaches one of its financing covenants.

  All the group's secured borrowings contain financial covenants based only on specific security not corporate ratios such as balance sheet gearing. Treasury control schedules are updated each week whilst the group's rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken.

- That the group's debt facilities become unavailable or are not renewed.

  The group develops long term relationships with a small number of banks and, where possible, arranges facilities that provide an excess over the requirement identified in the rolling forecast.

The systems that control the risks on the risk register form the group's system of internal control. The effectiveness of this system and the operation of the key components thereof have been reviewed for the accounting year and the period to the date of the financial statements.

Risk management – financial instruments

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 narrative below describes the group's objectives, policies and processes for managing those risks and the methods used to measure them.

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 as follows:

- Trade receivables
- Cash at bank
- Bank overdrafts
- Trade and other payables
- Floating rate bank loans
- Secured bonds
- Interest rate swaps
- Interest rate caps

General objectives, policies and processes

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

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from its lease contracts. It is group policy to assess the credit risk of new tenants before entering contracts as set out above.

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

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

The group does not enter into derivatives to manage credit risk.

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

Market risk

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

Fair value and cash flow interest rate risk

The group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently group policy that between 40% and 75% of external group borrowings (excluding finance lease payables) are fixed rate borrowings. Where the group wishes to vary the amount of external fixed rate debt it holds (subject to it being at least 40% and no more than 75% of expected group borrowings, as noted above), the group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the board accepts that this policy neither protects the group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

During both 2009 and 2008, the group's borrowings at variable rate were denominated in sterling. The group monitors the interest rate exposure on a regular basis.

The group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Predominantly, the group 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 discussed in the 'Fair value and cash flow interest rate risk' section above.

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

The group's loan facilities are spread across a range of UK banks so as to minimise any potential concentration of risk.

The liquidity risk of the group is managed centrally by the finance department.

Capital disclosures

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

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

The group sets the amount of capital it requires in proportion to risk. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in its industry, the group monitors capital on the basis of balance sheet gearing and property gearing. Balance sheet gearing is defined as net debt divided by net assets and property gearing is defined as the nominal value of borrowed funds divided by the fair value of investment property. This is equivalent to the loan to value calculations used in the group's bank covenants. Both of these figures are derived below.

Balance sheet gearing

	30.06.09 £m	30.06.08 £m	31.12.08 £m
Total net borrowings and derivatives	**878.2**	842.6	902.8
Less: derivative financial instruments	**(19.9)**	9.1	(26.9)
Total debt	**858.3**	851.7	875.9
Less: cash and cash equivalents	**(9.0)**	(5.8)	(10.5)
Net debt	**849.3**	845.9	865.4
Net assets	**984.7**	1,682.7	1,215.0
Balance sheet gearing	**86.2%**	50.3%	71.2%

Property gearing

	30.06.09 £m	30.06.08 £m	31.12.08 £m
Net debt	**849.3**	845.9	865.4
Fair value adjustment to secured bond and issue costs	**(19.0)**	(19.6)	(19.3)
Leasehold liabilities	**(8.6)**	(6.6)	(8.6)
Drawn facilities	**821.7**	819.7	837.5
Fair value of investment property	**1,855.6**	2,518.2	2,108.0
Property gearing	**44.3%**	32.6%	39.7%

Profit and loss gearing

Profit and loss gearing is defined as gross property income, excluding surrender premiums, less ground rent, divided by interest payable on borrowings less interest receivable. This is similar to the group's most commonly used interest cover ratio, and is derived below.

	Half year to 30.06.09 £m	Half year to 30.06.08 £m	Year to 31.12.08 £m
Gross property income	**63.1**	57.5	119.0
Surrender premiums	**-**	(0.2)	(0.2)
Ground rent	**(0.6)**	(0.6)	(1.3)
Net rental income	**62.5**	56.7	117.5
Net finance costs	**15.7**	23.7	55.5
Foreign exchange gain/(loss)	**3.6**	-	(8.3)
Net pension return	**-**	0.2	0.3
Finance lease cost	**(0.3)**	(0.3)	(0.6)
Amortisation of bond fair value and issue costs	**0.3**	0.3	0.6
Net interest payable	**19.3**	23.9	47.5
Profit and loss gearing	**3.24**	2.37	2.47

22 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.

List of definitions

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

Adjusted net asset value per share
NAV adjusted to exclude deferred tax on the property revaluation surplus and fair value adjustments to the carrying value of assets and liabilities.

Recurring net property income
Net property income excluding development income.

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

Earnings per share (EPS)
Profit for the year attributable to equity shareholders divided by the weighted average number of ordinary shares in issue during the period.

Recurring earnings per share
Earnings per share adjusted to exclude the after tax effect of non-recurring items, profits or losses on sales of properties and investments, and the fair value adjustments to the carrying value of assets and liabilities.

Diluted earnings per share
Earnings per share adjusted to include the dilutive effects of potential shares issuable under the group's share option schemes. However, a loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

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

Balance sheet gearing
Net debt divided by net assets.

Profit and loss gearing
Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable. This is similar to the group's most commonly used interest cover ratio covenant.

Property gearing
The nominal value of borrowed funds divided by the fair value of investment property. This is equivalent to the loan to value calculations used in the group's bank covenants.

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

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 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 period plus the dividend per share paid during the period, expressed as a percentage of the adjusted net 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.

Total shareholder return

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

Rent roll

The annualised contracted rental income, net of ground rents.

Initial yield

The rent roll generated by a property or by the portfolio as a whole expressed as a percentage of its valuation. Where applicable, the valuation is adjusted to include any capital expenditure required for scheme completion. For the net initial yield, notional purchasers' costs are added to the valuation.

True equivalent yield

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

Reversionary yield

The anticipated yield based upon the valuers' estimated rental value of a property or portfolio, expressed as a percentage of its valuation. Where applicable, the valuation is adjusted to include any capital expenditure required for scheme completion.

Reversion

The reversion is the difference between the rent roll of a property or portfolio and the rental value as estimated by the group's external valuers. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

Underlying portfolio

Properties that have been held for the whole of the period.

Vacancy rate

The rental value of vacant space in a property or portfolio, that is immediately available for occupation, expressed as a percentage of the estimated rental value.