Derwent London plc

Annual results 2011 announcement

DERWENT LONDON

1 March 2012

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

Results for the year ended 31 December 2011

DERWENT LONDON ANNOUNCES STRONG 2011 RESULTS

Derwent London, the largest real estate investment trust (REIT) focused on the central London commercial market, announces results for the year ended 31 December 2011.

HIGHLIGHTS

Continued strong performance in 2011

- EPRA net asset value per share increased by 15.4% to 1,701p from 1,474p at 31 December 2010
- Portfolio revaluation surplus of £172.1m (2010: £301.7m)
- Underlying portfolio valuation increase of 7.6% (2010: 15.7%)
- EPRA profit before tax of £52.3m (2010: £55.2m)

Financial strength and flexibility retained

- £600m debt facilities refinanced including the issue of a £175m 2.75% convertible bond
- Undrawn bank facilities totalled £469m (2010: £245m)
- Loan to value ratio reduced to 32.0% (31 December 2010: 35.7%)

Further significant dividend growth

- Final dividend increased to 21.90p giving a total of 31.35p, up 8.1% on 2010

Robust demand for our distinctive brand of high quality, mid-market office space

- 100 lettings in 2011 totalling 495,700 sq ft (46,050m²) at £16.7m pa (2010: £8.0m)
- Vacancy rate at 31 December 2011 was 1.3% (31 December 2010: 5.9%)
- New lettings signed in 2012 include a pre-let to Burberry at 1 Page Street SW1 (127,000 sq ft /11,800m²)

Further investment in the portfolio

- Planning permissions secured to create a total of 0.9 million sq ft (83,600m²), a 68% uplift on existing floorspace
- Seven schemes on site or planned to commence in 2012 totalling over 500,000 sq ft (46,500m²) incurring total capital expenditure of £137m
- Joint venture with Grosvenor announced today at 1-5 Grosvenor Place SW1 with a view to redevelopment. Grosvenor have granted a new 150-year lease to replace the Group’s existing leases and paid £60m to the Group in return for 50% ownership
- Headlease at 40 Chancery Lane regeared in 2012, unlocking a 100,000 sq ft (9,300m²) development
- Riverwalk House and nearby property sold, subject to planning permission, for £77.3m

Robert Rayne, Chairman, commented:

“Derwent London has proven again that the strategy of focusing on mid-market central London property is successful. We have increased and extended our debt facilities to provide us with the firepower and flexibility to exploit the opportunities open to us. We are confident that the Group is well positioned to deliver good returns both in the tough environment we currently face, and when more sustained economic growth appears.”

John Burns, Chief Executive Officer, commented:

"2011 has been another strong year for Derwent London. The robust leasing activity we experienced in the first half of the year has continued throughout 2011 and into 2012 and we are confident that the quality and distinctive space in our portfolio will continue to attract a diverse mix of tenants.

“We have made significant progress in unlocking the potential value at a number of our projects, and look forward to advancing our exciting pipeline. The positive regenerative impact of Crossrail is increasingly apparent in our villages close to Tottenham Court Road and Farringdon.”

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Kate Holgate / Elizabeth Adams

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

CHAIRMAN'S STATEMENT

Overview

Derwent London recorded another strong performance in 2011, seeing good progress across a range of projects, whilst maximising flexibility and mitigating key risks. Our business model has again proved robust in turbulent markets, with the core central London office market holding up well. We have seen lower than average supply and continued strong demand both from tenants and a wide variety of domestic and overseas investors. EPRA net asset value per share increased by 15.4% to 1,701p from 1,474p at 31 December 2010 and the portfolio generated a revaluation surplus of £172.1m (2010: £301.7m).

In a period in which asset management has become ever more important, 2011 was a record year for lettings at the Group. This activity produced total rental income of £16.7m pa on floorspace of 495,700 sq ft (46,050m²). This surpassed our 2010 performance, when the lettings totalled £8.0m pa. These transactions reduced the Group's space immediately available for occupation to 1.3% by estimated rental value, down from 5.9% at the start of the year. There are a number of projects currently on site which, when completed, will increase this percentage. However taking account of pre-lets, including Burberry's expansion into 1 Page Street SW1, and the continuing receipt of rental income from the Buckley Building (previously Woodbridge House) EC1, these schemes have been considerably derisked.

The year was also an important one for the Group in securing planning permissions at a number of properties which add to our store of future opportunities. In 2011 we received planning permission to create a total of 0.9m sq ft (83,600m²), an uplift on the existing floorspace at these properties of 68%. Amongst these consents, in our core Fitzrovia Estate, 80 Charlotte Street W1 will provide 367,000 sq ft (34,100m²) of development, a further step in the wider regeneration of the area. The City Road Estate EC1 scheme also received planning permission during the year. This 289,000 sq ft (26,800m²) office-led development is located at Old Street roundabout, in the centre of the area promoted by the Government as 'Tech City'. It will be developed using our 'White Collar Factory' principles though we would require a pre-let of a substantial portion before proceeding with this scheme.

The development of Crossrail will have a significant beneficial impact on central London, and we intend to take full advantage of this with projects planned around both the Tottenham Court Road and Farringdon interchanges. Towards the end of 2011, in collaboration with Crossrail, we submitted a planning application for major regeneration at 1 Oxford Street W1. The 275,000 sq ft (25,500m²) proposed scheme would be built above the Tottenham Court Road Crossrail and London Underground station. We have the option to repurchase this site upon completion of the Crossrail works, around 2017. It is hoped to receive a planning decision shortly.

During the year we also made material progress on our proposed schemes in the Farringdon area, with Turnmill at 63 Clerkenwell Road EC1 and the Buckley Building on Clerkenwell Green EC1 both receiving planning consent. Turnmill is a 70,000 sq ft (6,500m²) new-build office development which will occupy a major corner site close to the Farringdon Crossrail interchange. The development is expected to start later in 2012. At the nearby Buckley Building we are now on site, enlarging the existing property to 85,000 sq ft (7,900m²) with works due to complete later this year.

In October 2011, we signed a Memorandum of Understanding with Grosvenor, our freeholder at 1-5 Grosvenor Place SW1, to consider redevelopment of the site. We are now pleased to confirm that we have progressed this relationship into a formal joint venture. The Group has restructured its headleases into a new 150-year term and sold 50% of this interest to Grosvenor for £60m. The existing buildings occupy an underutilised flagship site of 1.5 acres (0.6 hectare), at Hyde Park Corner. The transaction offers a unique opportunity to undertake a substantial mixed-use redevelopment in such a prominent location. Whilst we progress redevelopment plans, we are maintaining income through short-term, flexible lettings.

At 40 Chancery Lane WC2 we have undertaken similar active asset management. In early 2012 we exchanged conditional contracts with our freeholder to restructure and extend our interests here into a new 128-year lease. This has unlocked a redevelopment opportunity which is due to start in the second half of 2012. It will provide a new 100,000 sq ft (9,300m²) six-storey office building which we expect to complete by the end of 2014.

Towards the end of 2011, we submitted a planning application for the redevelopment of Riverwalk House on Millbank SW1. In contrast to the commercial developments above, this application is for a 148,000 sq ft (13,700m²) high-specification residential redevelopment. We have exchanged contracts to sell this and another nearby property for £77.3m to Ronson Capital Partners, with completion conditional on receipt of planning permission. This transaction will provide the Group with valuable experience of a major residential scheme and a continued interest by way of a profit overage.

Following the Government's recent decision to proceed with the HS2 rail link, the Board has given careful consideration to our proposed 265,000 sq ft (24,600m²) office and residential development at Hampstead Road NW1. The property is now expected to be compulsorily purchased as part of the construction of HS2. Despite having reached advanced negotiations on major pre-lets on this project, in view of the uncertainty as to the future of the site and the considerable investment needed to complete the project, we have decided to defer redevelopment. 'Light touch' refurbishment options are now being considered that will enable us to let the space on flexible terms and we will keep the situation under review as the Government's plans progress.

The process of recycling the portfolio continues, disposing of properties where this appears an attractive option. In 2011 we sold £132.5m of mature and smaller assets, giving rise to a surplus on disposal of £36.1m. Where opportunities arose, we also made acquisitions, totalling £87.5m, either near existing holdings, such as 1 Page Street SW1, or where we could buy or lengthen headleases such as at the Network Building W1 and Morelands Buildings EC1. These purchases give us greater control over the future of these properties.

Despite a difficult period for UK and European banks when their cost of funds has been under renewed pressure and access to capital has been constrained, our covenant remains in demand and we continue to receive very good support from the banking sector. Including the issue of a £175m unsecured convertible bond in June 2011 we signed up a total of £600m of new or extended facilities in 2011. As well as deferring any bank refinancing risk until 2014, we have diversified our sources of finance and anticipate that an increasing proportion of our future debt requirements is likely to come from non-bank sources.

The Group's performance would not be possible without a highly committed and experienced team. It was gratifying that this was recognised when Derwent London was ranked fifth overall among UK companies in Management Today's 'Britain's Most Admired Companies' Award, and first in the property sector for the second consecutive year. In addition, the Angel Building was shortlisted for the prestigious RIBA Stirling Prize as well as being awarded a number of other accolades, endorsing the strength of our design philosophy. Further recognition of the quality of our business came when we were recently awarded the Estates Gazette 'Property Company of the Year – Offices'.

Results

The portfolio performed well through the whole of 2011, increasing in underlying value by 7.6% to £2.6bn and driving the Group's EPRA net asset value to 1,701p per share compared with 1,474p a year earlier and 1,621p at June 2011.

This 15.4% increase over the year was led by the £172.1m revaluation movement which came mainly from rental growth while the £301.7m surplus in 2010 also benefited from yield compression.

With strong lettings and new income from properties acquired, gross property income increased to £125.5m from £119.4m in 2010 but EPRA earnings per share fell slightly from 52.89p to 51.59p due mainly to higher finance and administration costs. Profits on disposals of investment properties, which are not included in the EPRA earnings, totalled £36.1m in 2011 against £0.9m in 2010.

The Board continues to pursue a progressive dividend policy and is proposing an increase in the final dividend of 8.1% to 21.9p per share to be paid on 15 June 2012 to shareholders on the register at 18 May 2012. Of this amount, 18.10p 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 31.35p, an increase of 8.1% on that in 2010 and a level which remains well covered by recurring earnings.

Property disposals during 2011 almost matched the combined investment in new acquisitions and capital expenditure and, with the valuation increase noted above, this has contributed to another fall in gearing. The Group's loan to value ratio at 31 December 2011 was 32.0% against 35.7% in December 2010 and undrawn and available bank facilities totalled £469m at December 2011, a substantial increase over the equivalent figure at December 2010 of £245m. In addition, there was £589m of uncharged property at December 2011 compared with £484m at the previous year end.

The Board

As previously announced, Donald Newell stepped down from his position as non-executive Director at the conclusion of the Annual General Meeting in May 2011. Don joined the Company when it merged with London Merchant Securities, where he had been on the Board since 1998. Again I would like to thank him for his valuable contribution and sound counsel throughout this period.

Outlook

Whilst we believe that low GDP growth and a paucity of finance will continue to act as headwinds to the UK economy, including to the real estate market, we consider Derwent London to be strongly placed. The London economy continues to show resilience and our focus on mid-market rentals accords with the somewhat straitened times in which we currently live. We have, and continue to attract, a diverse tenant mix, with an emphasis on companies from the Technology, Media and Telecoms sectors.

Despite the difficult state of the economy, we are encouraged by the continuing strength of our letting activity. We are on site or due to commence major capital projects covering over 500,000 sq ft (46,500m²) in 2012 which will involve total capital expenditure of about £137m. We have either pre-let commitments, or continuing rental income, over almost 50% of these projects.

In the near term, the London economy should receive a boost in 2012 with the Queen's Diamond Jubilee celebrations, the Olympics and the Paralympics and, in the medium term, our central London 'villages' will greatly benefit from the progress of Crossrail.

We have a vibrant portfolio that is attractive to tenants, a strong pipeline of development opportunities and a very sound financial base. As a result we have capacity for further substantial investment in both new acquisitions and development expenditure, and we continually assess opportunities, whilst retaining flexibility over the timing of such commitments. We believe the Group is well positioned to deliver good returns both in the tough environment we currently face, and when more sustained economic growth appears.

R.A. Rayne

1 March 2012

BUSINESS REVIEW

OUR PORTFOLIO

Derwent London provides high quality, innovative contemporary office space, priced at mid-market rents. We own and manage a 5.4 million sq ft (501,400m²) portfolio that was valued at £2.6bn as at 31 December 2011. Of our portfolio, 77% is in the West End, the main focus of our operations, in villages such as Fitzrovia, Victoria, Belgravia and Marylebone. The City borders account for 19% and include villages such as Old Street, Clerkenwell, Holborn and Shoreditch and the remaining 4% is in Scotland, on the northern outskirts of Glasgow. With over half of the portfolio still to be worked, we have a wealth of value-creating opportunities in the portfolio that can be crystallised through asset management or regeneration. With some major planning approvals in 2011, we have added to these opportunities.

The portfolio consists of 122 buildings and has over 600 tenants covering a range of business sectors. Media, TV, marketing and advertising tenants account for 29% of our net rental income whilst professional and business services tenants comprise 28% and 13% of our income is from retail sales outlets.

Our portfolio's annualised net contracted rental income at the year end was £113.1m, compared to an estimated rental value of £160.4m, therefore offering strong reversionary potential. With passing rent of £25.79 per sq ft (£277.60 per m^2) on our central London office portfolio, rising to £31.10 per sq ft (£334.80 per m^2) once 'topped up' for the expiry of rent free periods and other rental incentives, average rents remain low.

OUR MARKET

See appendix 1

Overview

The UK economy grew by an estimated 0.9% in 2011, a weaker level than anticipated a year ago, with growth of 0.6% in the third quarter and contraction of 0.2% in the final quarter. UK base rates stayed at their historic low of 0.5% during the year whilst unemployment continued to rise and RPI inflation stayed at 5% or above for every month of 2011 with the exception of December.

Against this backdrop, and with the Government's austerity measures starting to impact the economy, the outlook for 2012 remains fragile. In addition, the sovereign debt issues in many parts of the Eurozone add to the economic and political uncertainty further subduing business sentiment and putting additional pressure on the cost of borrowing. The Bank of England is predicting that inflation will fall in 2012 and is hopeful that the further quantitative easing will help to stimulate the economy. Most commentators expect interest rates to remain unchanged throughout 2012 whilst the International Monetary Fund in January 2012 predicted that UK GDP growth for the year will be constrained at around 0.6% before rising to 2% in 2013. With this background, financial and business services employment in central London is expected to rise by 1.2% in 2012 before accelerating to 3.7% in 2013 according to Oxford Economics.

London, where 96% of Derwent London's portfolio is located, is a major centre for international business and commerce and generates approximately 20% of UK economic output. Its economy is predominantly service-based and was one of the strongest performing UK regions in the year. Despite London's significant exposure to the financial services sector and to Europe, the capital has remained resilient and continues to attract national and international occupiers and inward investment.

The year ahead will be a memorable one for London as it hosts the Olympic and Paralympic Games in the summer and it will play a major role in the celebrations surrounding the Queen's Diamond Jubilee. These events are expected to boost sentiment and economic activity and further enhance London’s international profile.

Central London office occupier market

Central London has an office stock of approximately 218 million sq ft (20.3 million m^2), making the capital a significant office centre in both a European and global context. By sub-area, 50% of London’s office stock is in the City, 41% in the West End and 9% in Docklands. Derwent London focuses on the West End and its surrounds and tailors its space to the more diverse occupier base here that mainly comprises companies from the media and professional and business services sectors. The City and Docklands are very much dominated by financial and legal occupiers.

As published by surveyors CBRE, central London office take-up for 2011 was 10.3 million sq ft (0.96 million m^2). This was lower than the 14.6 million sq ft (1.36 million m^2) recorded in 2010 and approximately 10% below the 10-year average.   Relative to trend, and underlining the resilience of our chosen operating market, the West End was the strongest performing sub-area with annual take-up of 4.4 million sq ft (409,000m^2). This was 6% above the 10-year average and 8% below the 2010 level. The Technology, Media and Telecommunications (TMT) sectors were particularly active in 2011 and accounted for 24% of West End take-up.

With the lowest level of completed developments since the early 1990s at 1.7 million sq ft (158,000m^2), the CBRE central London vacancy rate by floorspace remained stable over the year, and below the 10-year average. This rate started the year at 5.5%, declined to 4.9% at the half year and finished at 5.2%. With few development completions, the West End’s vacancy rate was even lower, commencing the year at 5.2%, falling to 3.8% at the half year before rising to 4.3% at the year end.

With the differing levels of supply and demand across the central London office sub-areas, the CBRE prime rent index showed West End rents increasing by 4.8% in 2011 compared to a 0.6% rise in the City.

Central London investment market

Central London investment volumes, according to CBRE, totalled £8.4bn in 2011, down 14% on 2010 and 17% below the 10-year average. In the West End, annual transactions totalled £3.2bn with overseas investors accounting for 57% of the total. Over the year, prime yields in the West End remained at 4.0%, unchanged since mid 2010 and 150 basis points lower than their maximum during the downturn in 2009. City prime yields compressed by 35 basis points over the year and finished at 5.0%.

VALUATION

See appendix 2

In 2011, London continued to be investors’ UK location of choice with strong domestic and international demand. This appetite, in a market with a scarcity of properties for sale coupled with rental growth performance, enabled London’s commercial property values to outperform the rest of the UK again.

In the first half of 2011, the investment market saw a marginal tightening of valuation yields and an improving rental growth trend. However, with the increased economic uncertainty in the Eurozone in the second half, sentiment was moderated and this stabilised yields and limited rental growth.

Within this environment, the Group's investment portfolio was valued at £2.6bn at 31 December 2011. The valuation surplus was £181.7m for the year, before lease incentive adjustments of £9.6m, giving a total movement of £172.1m. This valuation movement was below the £301.7m in 2010, a year when yield compression across the portfolio was more widespread.

The underlying valuation increase over the year was 7.6%, or 8.8% if property sales completed during the year had been retained and valued at their disposal level. Both were an outperformance against our comparative benchmark measures, the IPD Capital Growth Index for Central London Offices at 7.3%, and the IPD All UK Property Index at 1.7%. Valuation performance was stronger in the first half of the year with a 4.6% increase, slowing to 2.9% in the second half as the rate of rental growth eased.

Our London portfolio saw underlying capital values grow by 7.9% over the year. Within this, West End properties increased by 8.1% and City border properties rose by 7.1%. The remaining 4% of the portfolio, our Scottish assets, increased by 1.5% over the year.

Our projects that are currently on site and encompass the entire building, namely 1 Page Street, Buckley Building and 4 & 10 Pentonville Road, were valued at £96.2m as at December 2011. This reflects a valuation uplift of 4.8% over their value on 31 December 2010 or date of purchase, if later. These projects are at a relatively early stage of development and offer the potential for material valuation uplift in the future.

As shown by our buoyant 2011 letting activity, good tenant demand moved rents forward and this growth was the principal driver in valuation performance. Over the year, the underlying estimated rental value increased by 6.3% (2010: 5.4%). Rental growth in the first half of the year was 4.1% before moderating to 2.1% in the second half as economic uncertainty increased.

On an EPRA basis, the portfolio's net initial yield was 4.4% which would rise to 5.2% on a 'topped-up' basis following the expiry of rent-free periods and contracted rental uplifts. The net reversionary yield was 5.8%.

The portfolio's true equivalent yield at 31 December 2011 was 5.61% against 5.65% at the half year and 5.77% at the end of 2010, reflecting the general yield stabilisation seen across the investment market, whereas there was a 67 basis point yield compression in 2010. On a total property return basis, the portfolio delivered 13.4% in 2011 compared to 21.3% in 2010. The IPD Total Return Index was 12.5% for Central London Offices and 7.8% for All UK Property.

PORTFOLIO MANAGEMENT

See appendix 3

Overview

Active asset management is a cornerstone of the business and we made significant achievements in a number of areas during 2011. Letting activity was strong with a high volume of transactions at above estimated rental values whilst voids were kept to a minimum. We saw excellent tenant retention and rent collection remained prompt. Rent reviews and lease renewals captured portfolio reversion.

Letting activity

Our well-designed, mid-priced offices continued to prove popular and 2011 was another exceptional period of leasing activity. In total, we concluded 100 lettings on a floorspace of 495,700 sq ft (46,050m²) and a rental income of £16.7m pa, the highest ever level achieved by the Group. In 2010, we concluded a similar number of lettings but at £8.0m pa on a floorspace of 347,000 sq ft (32,200m²).

Lettings comprised £8.5m pa in the first half of the year and £8.2m pa in the second half. Two thirds of the lettings were 'new income' as the floorspace concerned was producing a total rent of £5.3m pa at the start of 2011.

Open market transactions for the year accounted for 88% of the activity and achieved rents 11.2% higher than their December 2010 estimated rental values. The uplift was 8.9% for overall lettings, which include short-term transactions at our future development projects. In the second half of the year, open market transactions were 5.9% above June 2011 estimated rental values whilst overall transactions were 4.6% above.

Lettings during the year included:

- Angel Building, 407 St John Street EC1 – this award-winning 263,000 sq ft (24,400m²) regeneration project, which completed in September 2010, became fully let in November 2011 following seven lettings during the year totalling £5.5m pa on 136,500 sq ft (12,680m²). Expedia, the world's largest online travel company, took 93,400 sq ft (8,680m²) of office space at £3.8m pa whilst Sage Pay and NG Bailey took 29,800 sq ft (2,770m²) at £1.2m pa. The retail units, totalling 13,300 sq ft (1,230m²), attracted well known names – Jamie's Italian, Busaba Eathai and Hummingbird Bakery – at a total rent of £0.5m pa. During the year the Angel Building was shortlisted for the RIBA Stirling Prize and won numerous accolades including RIBA London, the British Council for Offices and the British Construction Industry awards.

- 88 Rosebery Avenue EC1 – 49,000 sq ft (4,550m²) of offices were pre-let to City University at £1.2m pa at this refurbishment which involved just under half of the building.

- 1-5 Grosvenor Place SW1 – whilst we progress the development plans here, through the recent headlease regear (see 'Activity in 2012'), we continue to optimise income through shorter term lettings. Nine transactions were concluded in 2011 at a rent of £1.2m pa, covering 26,600 sq ft (2,470m²), which was 4.8% above December 2010 estimated rental values.

- Tea Building, Shoreditch High Street E1 – nine office lettings were concluded at this landmark property totalling £1.2m pa, 31% ahead of December 2010 estimated rental values, on a floorspace of 41,000 sq ft (3,810m²). With the ever improving micro market in the area and our recent environmentally-friendly 'Green Tea' fit out of several units, rents achieved during the year averaged £29 per sq ft (£310 per m²) with an all-time high for the building of £32.50 per sq ft (£350 per m²) in the third quarter. With a total rental income of £4.5m pa and an estimated rental value of £6.2m pa, the building remains highly reversionary. At the year end, this 250,400 sq ft (23,260m²) building had an occupancy rate of 97% with the balance of space under offer.

- Johnson Building, 77 Hatton Garden EC1 – 22,300 sq ft (2,070m²) was let to Lastminute.com at £0.95m pa equating to £42.50 per sq ft (£455 per m²) and the highest level achieved in this building.

Through asset management initiatives during the year, we captured further reversion within the portfolio and concluded 52 rent reviews and lease renewals that increased the Group's income by £0.9m pa, a 14.1% uplift on the previous income.

Tenant retention and rent collection

Although 19% (£21.4m) of the Group's 2010 year end income was subject to lease breaks and expiries during the year, tenant retention remained strong across the business. Excluding those where projects were imminent, the total exposure to lease breaks and expiries was 14% (£16.2m). Of this, 72% of income was retained (2010: 72%), 21% re-let prior to the year end (2010: 17%) and a further 2% re-let or placed under offer since the year end.

Rent collection continued to be prompt with on average 98% collected within 14 days of the due date. This is above the KPI collection target of 95% and compares with 96% in 2010.

Vacancy rate

With our strong letting activity and active portfolio management, the portfolio's EPRA vacancy rate by rental value, measured as space immediately available for occupation, ended the year at 1.3% or £1.9m pa. Half of this space has either been let subsequently or is under offer. This compared to 5.9% at the start of the year and 4.0% in June. By available floorspace, the year end vacancy rate was 1.3%, down from 4.9% a year earlier and 3.5% at the half-year. This compared favourably to the CBRE central London rate that decreased from 5.5% to 5.2% during the year.

Our five principal on-site projects have an estimated rental value of about £13m pa and, upon completion, would increase the Group's vacancy rate to around 9%. However, after adjusting for pre-lets and space under offer, the rate would reduce to approximately 5%.

Activity in 2012

Letting activity has continued into 2012 with the completion of a further 153,100 sq ft (14,220m²) of transactions at a rental income of £6.0m pa.

These included 1 Page Street SW1 where we are pleased to announce that Burberry will be increasing their presence in our portfolio by pre-letting the entire 127,000 sq ft (11,800m²) building for £5.3m pa. This reflects a level of £50 per sq ft (£540 per m²) on the top three floors with £45 per sq ft (£485 per m²) on a typical mid-level floor. The lease is for a 20-year term with a tenant-only break option in year ten and a rent-free period equivalent to 22 months. The first review after five years will be subject to a minimum uplift to £5.7m pa. An amendment to the existing planning consent has been submitted and approval is anticipated shortly. The completion of the lease is conditional on obtaining satisfactory consent.

We are also pleased to announce that we have signed a joint venture agreement with Grosvenor, our freeholder, for the future redevelopment of 1-5 Grosvenor Place, Belgravia SW1. As part of the transaction our headleases, that were due to expire in 2063 and 2084, have been regeared into a new 150-year term at a ground rent of 5% of rental income. Simultaneously, the Group has sold 50% of its ownership to Grosvenor and received £60m before costs. Having assembled the ownership over many years, this initiative protects our value through the headlease regear and unlocks the opportunity for a substantial and prestigious mixed-use scheme, likely to include a luxury hotel, commercial and residential space. The existing buildings, totalling 168,000 sq ft (15,600m²), are fully let at a gross income of £6.2m pa and occupy a prime 1.5 acre (0.6 hectare) island site, which overlooks Hyde Park Corner.

Following the transaction our share of the income is £2.95m. We are in the process of selecting architects to work on this scheme.

PROJECTS

See appendix 4

During the year we made excellent progress with our development programme through the completion of a range of refurbishments, the advancement of our on-site projects and the receipt of six major, value-creating planning consents. These total 0.9 million sq ft (83,600m²) and relate to 80 Charlotte Street W1, City Road Estate EC1, Turnmill EC1, Buckley Building EC1, 4 & 10 Pentonville Road N1 and the first phase of Central Cross W1. We await decisions on a number of other significant planning applications made in 2011 including 1 Oxford Street W1 and Riverwalk House SW1.

Despite the difficult state of the economy, we are encouraged by the strength of our letting activity and the relatively moderate level of space available to rent in our key markets. Our current development programme, which is either on-site or scheduled to commence in 2012, totals just over 0.5 million sq ft (46,500m²) on seven projects. These will have a potential net rental income of around £20m pa and will incur total capital expenditure of approximately £137m.

Review of 2011 activity

In 2011, the Group completed 219,400 sq ft (20,380m²) of projects – 91,400 sq ft (8,490m²) in the first half of the year and 128,000 sq ft (11,890m²) in the second. After the disposal of Victory House, these are now fully let at £5.2m pa.

The principal completions were:

- 33 George Street W1 – Pandora Jewellery pre-let the entire 13,000 sq ft (1,210m²) refurbished building for £0.7m pa which was completed in January 2011.

- Victory House, 170 Tottenham Court Road W1 – following completion of this 48,000 sq ft (4,460m²) mixed-use scheme in July, the building was sold (see 'Disposals').

- 88 Rosebery Avenue EC1 – a 49,000 sq ft (4,550m²) refurbishment that was completed in December and pre-let to City University for £1.2m pa.

Smaller refurbishments at the Tea Building E1, Holden House W1, Morelands Buildings EC1 and 55-65 North Wharf Road W2 were also completed in the year. Overall, excluding capitalised interest, £41.0m of capital expenditure was invested in the portfolio in 2011.

At year end, five principal projects were on site totalling 338,000 sq ft (31,400m²) with an estimated net rental value of £13m pa and a capital expenditure to complete of £68m. By estimated income, 50% of these are pre-let or under offer. The schemes are:

- 1 Page Street SW1 – this 127,000 sq ft (11,800m²) office building has been pre-let to Burberry (see 'Activity in 2012'). As part of the agreement with Burberry, as well as internal refurbishment and extension, the building will be reclad with an elegant masonry façade. This approach has enabled us to increase the floor area by 8% from the 118,000 sq ft (10,960m²) at the time of acquisition. We await planning approval for these amendments. Total capital expenditure to complete is estimated at £30m and it is anticipated that the building will be handed over to Burberry in mid 2013.

- Buckley Building (formerly Woodbridge House), 49 Clerkenwell Green EC1 – planning consent for this scheme was gained in May 2011 to refurbish and extend the existing building by 13% to 85,000 sq ft (7,900m²). Work is due to complete towards the end of 2012. To improve the building's identity, the office entrance is being repositioned from Aylesbury Street to the more prominent Clerkenwell Green. We have received some good early interest on this building and the Group continues to receive a rental income of £2.5m pa until March 2015 from an agreement with the previous tenant, which considerably derisks this project.

- 4 & 10 Pentonville Road N1 – this 55,000 sq ft (5,110m²) office refurbishment, opposite our Angel Building, gained planning consent in April 2011. The two existing buildings will be linked and remodelled, increasing the previous floor area by over 20%. Completion is scheduled for mid 2012.

- Central Cross W1 (Phases 1 & 2) – planning permission was obtained in September 2011 for the remodelling and extension of the main office entrance that will create 23,000 sq ft (2,140m²) of ground floor offices. Strip out work commenced in December on this first phase of this regeneration, with delivery due in late 2013. We expect to coincide these works with Phase 2 that will include a further office refurbishment of 21,000 sq ft (1,950m²). We have placed 15,400 sq ft (1,430m²) of Phase 1 under offer and we intend to rebrand the building going forward as 1-2 Stephen Street.

- Morelands Buildings, 5-27 Old Street EC1 – following a headlease extension, this multi-let building is undergoing a rolling refurbishment with 27,000 sq ft (2,510m²) in the current phase. This includes a fourth floor refurbishment and new fifth floor of 17,800 sq ft (1,650m²) which have been pre-let at £34.50 per sq ft (£370 per m²) and £37.50 per sq ft (£405 per m²) respectively and which are due to complete by the end of 2012.

Projects – 2012

In the year ahead, we are due to commence two exciting new-build projects totalling 170,000 sq ft (15,800m²) with a net estimated rental value of over £7m pa:

- 40 Chancery Lane WC2 – a second half start is proposed at this 100,000 sq ft (9,300m²) six-storey Midtown office scheme. In February 2012, to enable the redevelopment, we exchanged conditional contracts to restructure and extend our interests into a new 128-year lease with our freeholder, the Colville Estate. Completion will take place on achieving vacant possession, and will replace a 17-year unexpired headlease held on the majority of the site, the relinquishing of a minor freehold element and the extension of our ownership to include an adjacent building where the Group had no previous interest. The ground rent gearing is 18% of rental income, with the opportunity for the Group to pay a premium to reduce this to 10%. The freeholder will receive a share of the project's profits above a target return. Completion is anticipated towards the end of 2014 and the project will incur capital expenditure estimated at £44m.

- Turnmill, 63 Clerkenwell Road EC1 – this 70,000 sq ft (6,500m²) office development was granted planning permission in September 2011. It offers a substantial regeneration opportunity in an area that will benefit from the arrival of Crossrail at nearby Farringdon station in circa 2018. Capital expenditure is anticipated to be £26m with completion due in mid 2014.

At 132-142 Hampstead Road NW1, following the Government's January 2012 decision to proceed with the HS2 high speed rail link, we have reluctantly decided to put on hold the 265,000 sq ft (24,600m²) office and residential redevelopment. This decision is due to the expectation that our ownership will be compulsorily purchased should HS2 be built. Despite having been in advanced negotiations for substantial office pre-lets, the considerable capital expenditure of around £90m needed to complete the project and the uncertainty as to its future leads us to believe that the risk to proceed with the planned redevelopment is too great. We are now considering several 'light touch' refurbishment options that will allow us to offer space on flexible terms.

Projects – 2013 and onwards

During the year, our development team advanced a number of major future projects that could commence from 2013. These were made up of planning permissions granted, planning applications submitted and appraisal studies.

Planning permissions included:

- 80 Charlotte Street W1 – this 367,000 sq ft (34,100m²) mixed-use Fitzrovia development, providing 320,000 sq ft (29,700m²) of offices, together with residential and retail space and a new public park was granted planning permission by the Mayor of London in September 2011. This island site, located in the heart of Fitzrovia, currently comprises 200,000 sq ft (18,600m²) of outdated offices. The new scheme will be a major step in the wider regeneration of the area. Construction is due to commence after the existing leases expire in March 2013. Total anticipated capital expenditure is around £125m with delivery expected in 2015.

- City Road Estate EC1 – this major 289,000 sq ft (26,800m²) office-led development, located at Old Street roundabout within the Government's 'Tech City', was granted planning permission in October. The proposed scheme reflects a 130% increase on the existing floorspace and includes a new 16-storey office building, that incorporates our 'White Collar Factory' concept, together with retail and residential units. The existing buildings are multi-let on flexible leases producing £0.8m pa. The Group will be looking to secure a significant pre-let prior to committing an anticipated £100m of capital expenditure.

Planning applications made during the year included:

- Riverwalk House, 157-166 Millbank SW1 – a planning application was submitted in October for a 121-unit 148,000 sq ft (13,700m²) high-specification residential redevelopment at this prestigious riverside location. The building has been sold, subject to receipt of satisfactory planning permission (see 'Disposals').

- 1 Oxford Street W1 – a joint planning application with Crossrail Limited was submitted in October for a 275,000 sq ft (25,500m²) mixed-use scheme at Tottenham Court Road station, which will become a major transport interchange following the completion of Crossrail. This comprises 204,000 sq ft (18,900m²) of offices, 37,000 sq ft (3,400m²) of retail space and a 350-seat theatre. The site was compulsorily purchased from the Group by Crossrail in 2009 and we have the option to re-acquire it following the completion of their station works around 2017.

- 96-98 Bishop's Bridge Road W2 – planning permission was granted in February 2012 for a residential-led scheme of 21,400 sq ft (1,990m²), comprising 16 units, at this former 1930s cinema. It is anticipated that construction will start in early 2013.

We continue to advance a number of appraisal studies across the portfolio. This year we will be progressing our plans at 1-5 Grosvenor Place SW1 and the retail phase of Central Cross W1 where planning applications will be submitted in due course.

Acquisitions

Further depth was added to our development pipeline with acquisitions in 2011 totalling £87.5m before costs.

- 1 Page Street SW1 – this vacant office building, located close to our Horseferry House holding in Victoria, was acquired in March for £45.0m. As outlined in the 'Activity in 2012' section, we have pre-let the entire building to Burberry.

- Network Building, 95-100 Tottenham Court Road W1 – the headlease of this 64,000 sq ft (5,900m²) multi-let Fitzrovia office and retail property was purchased for £31.0m in April. The Group already owned the freehold and, by merging the interests, we are able to consider a more substantial redevelopment in the future. Income from this building is £2.1m pa which should rise to £2.7m pa on the letting of the vacant office space.

- Morelands Buildings, 5-27 Old Street EC1 – the headlease of this popular, multi-tenanted Clerkenwell property was regeared for an outlay of £5.8m before costs in the first half of the year, extending our tenure from 45 to 125 years and increasing our development rights. This regear facilitates a phased refurbishment and extension of the property with Phase 1, which has been mostly pre-let, now underway, incurring capital expenditure to complete of £5.6m.

- 423-425 Caledonian Road N7 – this 18,300 sq ft (1,700m²) office building was purchased for £5.6m in June and produces an income of £0.3m pa. It is opposite an existing holding, Balmoral Grove Buildings, where we are formulating a residential planning application.

Disposals

During the year the Group took the opportunity to recycle capital through the disposal of a mixture of mature and smaller assets. Sales totalled £132.5m before costs, had an income of £3.2m pa and gave rise to an overall surplus of £36.1m, or 38% above the December 2010 valuation. These included:

- Covent Garden Estate WC2 – this 71,900 sq ft (6,680m²) mixed-use holding of five freehold properties, that produced £2.5m pa, was sold for £68.0m.

- Victory House, 170 Tottenham Court Road W1 – following an extensive refurbishment, this 48,000 sq ft (4,460m²) mixed-used property was sold for £37.2m.

- 79-89 Pentonville Road N1 – this 35,600 sq ft (3,310m²) low income producing property was sold for £11.0m.

- 18-30 Leonard Street EC2 – the long leasehold interest of this cleared site, with planning consent for 47 residential units and 20,000 sq ft (1,860m²) of offices, was sold for £11.0m.

- Harp House, 83-86 Farringdon Street EC4 – at the expiry of the existing lease, this 14,300 sq ft (1,330m²) property was sold for £5.0m in December with vacant possession.

In addition, in December 2011 we exchanged conditional contracts to sell Riverwalk House SW1 and 232-242 Vauxhall Bridge Road SW1 for £77.3m to Ronson Capital Partners with completion subject to receipt of satisfactory planning permission. A planning decision is expected shortly. The Group will maintain an interest in the development by way of a profit overage arrangement and will work closely with the purchasers to enhance our expertise in residential projects.

Following the year end, at 1-5 Grosvenor Place SW1, we restructured our ownership and sold a 50% interest in the new headlease to Grosvenor for £60m as part of our joint venture arrangements for the future redevelopment of this site (see 'Activity in 2012').

FINANCE REVIEW

See appendix 5

Looking back on 2011, the first half of the year showed a continuation of the relatively strong recovery in sentiment that characterised 2010 but, from mid-year onwards, the UK's economic recovery slowed and stresses within the Eurozone came prominently to the surface. Certain European governments found that the cost of refinancing their sovereign debt was set to rise dramatically. The interdependence of banks upon banks, and banks upon sovereign support, caused market concern and political solutions were not rapid enough to curtail a substantial loss of confidence. The UK emerged as something of a 'safe haven', pushing gilt yields to almost record lows. However, confidence in the UK's domestic economy weakened in the second half, UK national debt levels also remain high and domestic consumer demand is under sustained pressure.

We therefore remain some way from 'normal' market conditions. As a consequence, our financial initiatives in 2011 focused on pre-emptive mitigation of refinancing exposures, while also managing operational risk such as letting voids. At the same time, we have worked to unlock valuable development opportunities for the future.

Adjusted net asset value per share

The Group's EPRA adjusted net asset value per share increased by 15.4% to 1,701p per share as at 31 December 2011 from 1,474p a year earlier. As usual, the main constituent of this increase was the property portfolio valuation which showed an increase of 168p per share after allowing for capital expenditure and lease incentives. Profits arising on disposals of investment properties also contributed another 35.4p per share compared with 0.9p per share in 2010.

London commercial property values have not yet recovered to their December 2007 peak levels but, since December 2009, the Group has seen a cumulative increase of almost 47% in net asset value per share. Debt and gearing levels have also been reduced further in the last year and we have been able to enhance the level of undrawn and available bank facilities.

Due to an increase in the valuation of the part of 25 Savile Row W1 that the Group occupies as its head office, this part has now been reclassified from investment properties to 'property, plant and equipment' in compliance with IAS 16 and IAS 40. Please refer to note 2 for further details of this minor restatement of the prior year comparative numbers.

In accordance with IFRS 5, the properties that were expected to be sold during 2012 have been included in 'assets held for sale' at the balance sheet date. These are discussed in the 'Disposals' section of the Property Review and amounted to £137.5m.

Group income statement

The last year was characterised by a record level of new lettings and reviews for the Group which helped gross property income to grow by 5.1% to £125.5m from £119.4m for the year ended 31 December 2010. After taking account of lease breaks and expiries, new lettings increased gross income by £3.3m compared to 2010. Properties acquired in 2010 and 2011 added £7.2m of rental income when compared with the 2010 calendar year, partly due to the full year's contribution from Central Cross, while disposals only reduced rent by £1.6m. However, as we progressed schemes at Riverwalk House, Hampstead Road, 88 Rosebery Avenue and 4 & 10 Pentonville Road, the income generated from those properties fell by £4.4m when compared with the prior year. As noted last year, the Buckley Building continues to generate rental income of £2.5m pa during the construction period and beyond to 2015.

Premiums received from tenants terminating leases early totalled £1.4m after netting off the related accrued income from unamortised lease incentives. The largest premium received came from a tenant who paid £1.5m to vacate the Johnson Building in December 2011; the resulting write-off of unamortised rent accrued through the rent-free period totalled £0.9m. This lease surrender was supported by a back-to-back letting to Lastminute.com at a higher rental level.

Property outgoings and ground rents increased from £8.1m in 2010 to £9.8m due mainly to void costs being higher in 2011 during the post completion period at the Angel Building until it was fully let and Riverwalk House's office tenant vacating in April 2011. In addition, surrender premiums of £1.9m were paid in 2011 of which the largest was a £1.3m payment to secure vacant possession at 210 Old Street. As a result, net property income increased by 4.2% to £117.7m, a slightly lower percentage than the increase in gross rents. Net rental income took account of a further recovery of £1.6m of commercial rates rebates from prior years, marginally lower than the £1.7m rates credit in 2010.

Excluding the impact of acquisitions, disposals and properties under development, like-for-like net property income on an EPRA basis rose by 3.7% from 2010 and an analysis is shown in the table in Appendix 5.

Administrative expenses increased to £22.7m from £20.9m in 2010 due mainly to increased staff and office costs. As in the previous year, we have both increased and strengthened the management team and we believe this was a contributory factor to the valuable planning consents won during the year. The Group's consistently strong performance over recent years has also contributed to an increase in the provision for long-term management incentives of £0.7m compared to 2010.

Average borrowings during the year were about £118m higher than in 2010. In addition, the impact of higher margins and fees charged on bank facilities renewed since November 2010 and the lower level of floating rate debt combined to increase net finance costs from 2010. Net finance costs, after capitalising £2.2m of interest in 2011, increased to £43.2m from £37.9m in 2010. The £175m of unsecured convertible bonds issued in June 2011 pay a cash coupon of 2.75% pa but, in accordance with IFRS accounting rules, we have recognised the hybrid nature of this instrument by booking an additional non-cash interest charge of 1.24% pa which added £1.0m to the 2011 finance cost. In future years, the additional charge will be £1.9m pa. In addition, the equity element of the convertible bond instrument of £9.4m, after costs, was recognised in reserves at the point of issue.

The resulting EPRA recurring profit before tax was £52.3m for the year ended 31 December 2011 compared with £55.2m in 2010. Tax recoveries from historical positions in the UK and USA meant that EPRA earnings per share fell by less than 3% to 51.59p from 52.89p in 2010.

The overall profit before taxation for the year was £233.0m compared to £352.8m in 2010, the reduction due mainly to the lower level of property revaluation movements in 2011. The surplus arising in 2011 from the revaluation of the Group's property portfolio amounted to £172.1m against £301.7m in 2010. A further contribution came from profits on disposals of investment properties in 2011 of £36.1m offset partially by the £26.5m mark-to-market deficit on interest rate swaps referred to below. The gain on disposals of investment properties came from the sales of low yielding properties at Covent Garden and 78-79 Pentonville Road in the first half of the year and Victory House, 18-30 Leonard Street and Harp House in the second half. In aggregate, these sales achieved 38% above December 2010 book values, after costs.

Gilt yields and swap rates over the medium and long-term fell strongly in the second half of 2011 after rising a little in the first half. This recent decline in rates has been quite exceptional with the 10-year gilt hovering around 2.0% at the 2011 year end illustrating a distinct cooling of UK growth and interest rate expectations. The resulting mark-to-market deficit of £26.5m for 2011 compares with a £2.4m deficit in 2010. Interest rates have so far remained low into 2012.

Taxation

The 2011 tax credit relating to the non-REIT part of the business was £1.3m. This comprised a tax charge of £0.5m for the unelected share in our joint venture with the Portman Estate and a prior year tax credit of £1.8m. The latter item benefited from the resolution of a long-running US tax matter resulting in a cash receipt of £0.4m. In addition, we were able to release provisions against UK tax enquiries amounting to £1.4m. The deferred tax provision in 2011 fell slightly to £5.2m as the effect of the higher revaluation surplus was more than offset by previously unrecognised tax losses and the reduced UK corporation tax rate which falls to 25% on 1 April 2012.

Financing, net debt and cash flow

As the Group entered 2011 it faced £32.5m of bank facilities expiring in 2012 and a further £575m due to expire in 2013. We were also very aware of the deleveraging pressures facing real estate lending banks. Therefore, a principal strategic aim for the year was to focus on refinancing the majority of this requirement before 2012.

We had also previously flagged that we would look to seek out non-bank sources of debt and, after considering a number of other options, we decided to launch a £175m unsecured convertible bond in May 2011, the first of its type by a UK REIT. This was well received and was several times over-subscribed. Pricing settled at a 2.75% pa coupon with an initial exercise price of £22.22, some 50% above the Group's net asset value at December 2010. This issue provides a source of unsecured debt with no corporate or asset-specific financial covenants and a low coupon. It also carries a relatively modest risk of dilution given the high conversion price relative to net asset value. In documenting the issue, we were able to include an allowance of up to £350m for other capital markets issues such as private placements and bonds, together with unlimited access to bank and insurance company debt. We considered that this combination was unlikely to fetter our borrowing strategy over the five-year term of the bonds.

We have also taken action to renew and/or extend and refinance bank facilities during the year. In June 2011, the £100m bilateral revolving facility with The Royal Bank of Scotland was extended to a renewal date of April 2015; the margin increased to 120bp and steps up again in April 2012 to 175bp for loan to value ("LTV") ratios up to 65% and 200bp in the less likely event that we draw above 65% LTV.

We were also able to increase the principal amount of our revolving bilateral loan facility with HSBC that expires in November 2015 from £100m to £125m. This £25m increase was executed in December 2011 on the same terms as the original facility which was arranged in November 2010.

Both of these transactions are indicative of the strong nature of our valued banking relationships and illustrate the increasingly binary nature of the bank loan environment. For a small number of chosen borrowers, funds are available on terms that remain reasonably attractive while, for others, the facilities are either all but unavailable or are priced at a significant premium.

In the second half of the year, we approached a number of potential lenders to refinance part of the £375m syndicated loan facility expiring in March 2013 that was inherited upon the merger with London Merchant Securities in 2007. Our intention was to remove the risk in relation to that part of this refinancing which was to be funded by banks while leaving a further part which could be replaced with non-bank funding in 2012. Derwent London favours facilities which are either held by one bank or by a small club of banks and we therefore preferred to avoid assembling a new large syndicated facility.

After receiving several offers of funding, in December 2011 we signed a new £150m fully revolving five-year facility provided equally by The Royal Bank of Scotland and Barclays and a new £150m fully revolving five-year facility provided by Lloyds Bank to replace and extend their existing £100m bilateral facility. Although signed in 2011, these new facilities did not become available for drawing until January 2012 and so, as at the 2011 balance sheet date, the £375m facility was still in place. In January 2012, the £375m facility was part-cancelled and now consists of a £150m fully revolving facility.

The debt profiles of the bank facilities as at 31 December 2011 and the pro-forma refinanced position are both provided in Appendix 5.

We believe that the pricing on these two new facilities is at good and sensible levels in the current market, which became considerably more difficult in the last quarter of 2011. In both cases, we have agreed a 'ratchet' of margin pricing based on the amount drawn; at the lower end of the range of LTV ratios where we tend to operate most of the time, margins of 185bp and 160bp, respectively, were agreed for the two facilities while we expect to pay margins between 160bp and 215bp through the life of these loans. Should we need to draw the full amounts and in a situation where property security values were also to fall substantially from current levels, the margins in both facilities could be up to 250bp.

We are not seeking to renew the small £32.5m unsecured facility expiring in June 2012 which was originally arranged in connection with the loan notes offered at the time of the LMS merger. The remaining loan notes were repaid in January 2012.

In order to mitigate the effect of an increase in facility margins, we have taken steps to reduce the weighted average cost of our interest rate swaps. In January 2012, when the higher margins started to take effect, we broke two interest rate swaps with a principal amount of £130m and a weighted average rate of about 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 we would have incurred through the remaining life of the swaps. At the same time, we took out a new £70m swap to April 2019 at a rate of just under 2.0%, excluding margin. The impact of the new facility margins and swap rates is shown in the table in Appendix 5.

Cash proceeds from the sales of investment properties during 2011 were £131.5m which almost matched the £134.2m outflow incurred on capital expenditure and property acquisitions. Cash generated from operations after payment of the dividend totalled £21.8m for the year leading to an overall reduction in bank and other loans.

Taking account of amortisation of arrangement fees and other adjustments, the Group's net debt fell slightly to £864.5m at December 2011 compared to £887.8m a year earlier. After allowing for the cash raised from the issue of the convertible bond in June, bank loans were repaid by a net amount of £186.6m during the year compared to a net drawing of £158.8m in 2010.

Supported by the rise in portfolio values, gearing has fallen again in 2011 and the Group's overall LTV ratio, after allowing for unamortised loan arrangement costs, fell from 35.7% at 31 December 2010 to 32.0% at 31 December 2011. Balance sheet gearing fell from 59.4% to 50.4% over the same period. As noted above, our finance costs have increased in the year and, accordingly, the Group's overall interest cover ratio for the year fell a little to 307%, after capitalisation of interest, or 291% excluding capitalised interest, compared to 328% in 2010. These levels of LTV ratio and interest cover provide very substantial headroom for our bank facilities.

The weighted average length of unexpired debt facilities at 31 December 2011 was 4.4 years but, with the new facilities that became effective in January 2012, the pro-forma figure rises to 5.2 years, which is the same as at 31 December 2010.

The issue of the convertible bonds in June 2011 increased available headroom under bank facilities but also raised the proportion of debt that is at fixed rates; at 31 December 2011, the percentage of debt at fixed rates was 98% though this has fallen to 90% in January 2012 on the termination of the old swaps and the arrangement of the new swap noted above. This level of fixed rates provides us with considerable protection against movements in interest rates but remains a little above our target range. As we invest further in the portfolio over the medium term, we expect this proportion to fall back under 85%.

As a result of the higher level of fixed rates and the increased margins that we pay on recently renewed bank facilities, the weighted average cost of debt, including the secured bond, increased from 4.34% at December 2010 to 4.91% in December 2011, inclusive of the non-cash element of the convertible bond, or 4.65% if the latter is excluded.

The bond issue increased the level of committed bank facilities available for drawing at 31 December 2011 to £469m compared with £245m the previous year, added to which there was an additional £589m of uncharged property in December 2011; the comparative figure at December 2010 was £484m. The low LTV ratio at December 2011 means that the Group's bank covenants, both for LTV ratio and interest cover, have significant headroom and we estimate that property values could fall by around 50% before there was an LTV ratio breach under any of the facilities.

Dividend

Our dividend remains well covered and, as a result, the Board has been able to recommend an 8.1% increase in the proposed final dividend to 21.90p per share. Of the final dividend, 18.10p will be paid as a PID with the balance of 3.80p as a conventional dividend. This will bring the total dividend for the year to 31.35p per share, an increase of 2.35p or 8.1% over 2010. We will again offer a scrip dividend alternative as this has proved popular with shareholders with around 17% opting for shares rather than cash so far since it was introduced.

Directors' responsibilities

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

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

J. D. Burns	D.M.A. Wisniewski
Chief Executive Officer	Finance Director
1 March 2012	

GROUP INCOME STATEMENT

	Note	**2011** **£m**	2010 Restated £m
Gross property income		**125.5**	119.4
Other income		**2.0**	1.7
Total income	5	**127.5**	121.1
Property outgoings		**(9.8)**	(8.1)
Net property income		**117.7**	113.0
Administrative expenses	2	**(22.7)**	(20.9)
Revaluation surplus	2	**170.1**	298.1
Profit on disposal of investment properties	6	**36.1**	0.9
Profit from operations		**301.2**	391.1
Finance income	7	**1.1**	1.9
Finance costs	7	**(44.3)**	(39.8)
Movement in fair value of derivative financial instruments		**(26.5)**	(2.4)
Share of results of joint ventures	8	**1.5**	2.0
Profit before tax		**233.0**	352.8
Tax credit	9	**1.3**	-
Profit for the year		**234.3**	352.8
Attributable to:			
- Equity shareholders		**228.3**	343.6
- Minority interest		**6.0**	9.2
		234.3	352.8
Earnings per share	10	**225.20p**	339.68p
Diluted earnings per share	10	**217.67p**	337.47p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2011** **£m**	2010 Restated £m
Profit for the year		**234.3**	352.8
Actuarial losses on defined benefit pension scheme		**(3.5)**	(0.4)
Revaluation surplus of owner-occupied property	11	**2.0**	3.6
Deferred tax on revaluation surplus	16	**0.7**	(1.0)
Foreign currency translation		**-**	0.2
Other comprehensive (expense)/income		**(0.8)**	2.4
Total comprehensive income relating to the year		**233.5**	355.2
Attributable to:			
- Equity shareholders		**227.5**	346.0
- Minority interest		**6.0**	9.2
		233.5	355.2

GROUP BALANCE SHEET

	Note	**2011** **£m**	2010 Restated £m	2009 Restated £m
Non-current assets				
Investment property	2, 11	**2,444.9**	2,373.3	1,876.9
Property, plant and equipment	2, 12	**19.4**	16.7	13.1
Investments		**9.7**	8.4	6.4
Pension scheme surplus		**-**	0.7	0.8
Other receivables	13	**55.4**	45.8	38.9
		2,529.4	2,444.9	1,936.1
Current assets				
Trading properties		**-**	-	1.0
Trade and other receivables		**45.0**	37.7	44.0
Cash and cash equivalents		**3.5**	7.2	19.0
		48.5	44.9	64.0
Non-current assets held for sale	14	**137.5**	-	-
Total assets		**2,715.4**	2,489.8	2,000.1
Current liabilities				
Bank overdraft and loans	15	**32.5**	5.6	5.9
Trade and other payables		**70.9**	63.4	59.0
Corporation tax liability		**1.3**	3.3	5.4
Derivative financial instruments		**-**	-	1.6
Provisions		**1.6**	1.4	2.3
		106.3	73.7	74.2
Non-current liabilities				
Borrowings	15	**835.5**	889.4	733.9
Derivative financial instruments	15	**51.9**	25.4	21.4
Provisions		**0.5**	0.7	0.8
Pension scheme deficit		**1.5**	-	-
Deferred tax	16	**5.2**	5.9	5.9
		894.6	921.4	762.0
Total liabilities		**1,000.9**	995.1	836.2
Total net assets		**1,714.5**	1,494.7	1,163.9
Equity				
Share capital		**5.0**	5.0	5.0
Share premium		**162.9**	158.2	156.9
Other reserves		**936.6**	924.0	920.1
Retained earnings		**558.2**	361.6	45.2
Equity shareholders' funds		**1,662.7**	1,448.8	1,127.2
Minority interest		**51.8**	45.9	36.7
Total equity		**1,714.5**	1,494.7	1,163.9

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

	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 2010 (as previously reported)	5.0	156.9	916.8	48.5	1,127.2	36.7	1,163.9
Restatement (see note 2)	-	-	3.3	(3.3)	-	-	-
At 1 January 2010 (restated)	5.0	156.9	920.1	45.2	1,127.2	36.7	1,163.9
Total comprehensive income for the year	-	-	2.8	343.2	346.0	9.2	355.2
Share-based payments expense transferred to reserves	-	-	2.2	-	2.2	-	2.2
Transfer between reserves in respect of performance share plan	-	-	(1.1)	1.1	-	-	-
Premium on issue of shares	-	1.3	-	-	1.3	-	1.3
Dividends paid	-	-	-	(27.9)	(27.9)	-	(27.9)
At 31 December 2010 (restated)	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7

GROUP CASH FLOW STATEMENT

	Note	**2011 £m**	2010 £m
Operating activities			
Cash received from tenants		**116.8**	117.1
Direct property expenses		**(13.1)**	(9.8)
Cash paid to and on behalf of employees		**(14.4)**	(13.7)
Other administrative expenses		**(5.2)**	(5.7)
Interest received		**-**	0.1
Interest paid	7	**(36.5)**	(38.8)
Other finance costs		**(1.8)**	(1.8)
Other income		**2.1**	2.1
Tax paid in respect of operating activities		**(0.7)**	(3.0)
Net cash from operating activities		**47.2**	46.5
Investing activities			
Acquisition of investment properties		**(91.6)**	(148.0)
Capital expenditure on investment properties	7	**(42.6)**	(49.5)
Disposal of investment properties		**131.5**	8.5
Purchase of property, plant and equipment		**(0.2)**	(0.4)
Disposal of property, plant and equipment		**-**	0.1
Distributions received from joint ventures		**0.3**	-
Advances to minority interest holder		**(0.8)**	(1.0)
Net cash used in investing activities		**(3.4)**	(190.3)
Financing activities			
Net proceeds of bond issue		**170.2**	-
Repayment of revolving bank loan		**(75.0)**	(94.2)
Drawdown of new revolving bank loan		**-**	60.0
Net movement in other revolving bank loans		**(179.1)**	193.0
Drawdown of non-revolving bank loans		**67.5**	0.3
Repayment of loan notes		**-**	(0.3)
Net proceeds of share issues		**-**	1.3
Dividends paid to minority interest holder		**(0.1)**	-
Dividends paid	17	**(25.4)**	(27.8)
Net cash (used in)/from financing activities		**(41.9)**	132.3
Increase/(decrease) in cash and cash equivalents in the year		**1.9**	(11.5)
Cash and cash equivalents at the beginning of the year		**1.6**	13.1
Cash and cash equivalents at the end of the year	20	**3.5**	1.6

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 2011 or the year ended 31 December 2010, but is derived from those accounts. The Group's statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 will be delivered following the Company's annual general meeting. The auditor's reports on both the 2010 and 2011 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 (IFRS), as adopted by the European Union, 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 2010 annual financial statements, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year and the presentational changes 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 2011 year end:

IAS 24 Related Party Disclosures (revised);
IAS 32 Financial Instruments: Presentation (amendment);
IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; and
Amendments arising from the 2010 annual improvements project.

These had no material impact on the financial statements.

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

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;

Accounting policy changes
As a result of the issue of £175m convertible bonds in June 2011, the following accounting policy has been adopted by the Group:

<u>Convertible bonds</u>
The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

In addition, with effect from 1 January 2011, the Group has made the following changes to its accounting policies:

Capitalisation of interest

In accordance with IAS 23, Borrowing Costs, interest has been capitalised on development projects. The Group capitalises interest on development expenditure at the average cost of borrowings during the period. In the year to 31 December 2011 the Group capitalised £2.2m of interest. Had the Group adopted this policy from 1 January 2010, interest of £0.2m would have been capitalised during the year to 31 December 2010. Due to the immaterial amounts involved in 2010 and prior years, the comparative figures have not been restated for this accounting policy change.

Owner-occupied property

The Group occupies a portion of one of its properties. Due to an increased level of occupation and an uplift in the valuation, the Directors now consider the owner-occupied portion to be significant. It has, therefore, been transferred to property, plant and equipment from investment property in accordance with IAS 40, Investment Property, and IAS 16, Property Plant and Equipment. This part of the building is now being depreciated, in a similar way to other tangible fixed assets, over its remaining useful life with the depreciation included in administrative expenses. The respective revaluation movement and associated deferred tax is recognised in other comprehensive income as opposed to the income statement and included within a revaluation reserve in equity rather than in retained earnings.

As a result of this second accounting policy change, the following adjustments have been made to the comparative income statements, statements of comprehensive income, statements of changes in equity and the balance sheets:

	Restated position		As previously reported		Impact	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Income statement						
Administrative expenses *	(20.9)	(17.6)	(20.8)	(17.5)	(0.1)	(0.1)
Revaluation surplus/(deficit)	298.1	(79.6)	301.6	(81.1)	(3.5)	1.5
Tax credit/(charge)	-	8.7	(1.0)	9.4	1.0	(0.7)
Profit/(loss) for the year	352.8	(24.8)	355.4	(25.5)	(2.6)	0.7
Other comprehensive income in the year **	2.4	(4.5)	(0.2)	(3.8)	2.6	(0.7)
Overall impact on total comprehensive income					-	-
Basic earnings/(loss) per share (p)	339.68	(25.89)	342.25	(26.59)	(2.57)	0.70
Diluted earnings/(loss) per share (p)	337.47	(25.89)	340.03	(26.59)	(2.56)	0.70

Balance sheet

	Investment property £m	Property, plant and equipment £m	Other reserves *** £m	Retained earnings £m
01 January 2009				
As previously reported	2,085.6	1.2	923.4	95.0
Restated position	2,072.3	14.5	927.6	90.8
Impact	(13.3)	13.3	4.2	(4.2)
31 December 2009				
As previously reported	1,888.6	1.4	916.8	48.5
Restated position	1,876.9	13.1	920.1	45.2
Impact	(11.7)	11.7	3.3	(3.3)
31 December 2010				
As previously reported	2,388.5	1.5	918.1	367.5
Restated position	2,373.3	16.7	924.0	361.6
Impact	(15.2)	15.2	5.9	(5.9)

* Restatement due to the depreciation charge on the owner-occupied portion of the investment property.

** Represents the revaluation surplus, net of deferred tax, for the owner-occupied portion of the investment property, previously reported in the income statement.

*** The difference represents the transfer from retained earnings to the accumulated revaluation reserve, net of deferred tax, of the owner-occupied portion of the investment property.

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 compulsory purchase orders, which are no longer applicable, these are the same judgements identified at the previous year end.

- Trade receivables
- Exceptional items
- 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 2011 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 10. Additionally, information is provided to the executive Board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and assets held for sale and comprises 92% office buildings* by value. The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 8% 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 2011 or 2010, and no individual property accounts for more than 10% of the value of the property portfolio in either year.

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

Property portfolio	Carrying value		Fair value	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Office buildings	**2,397.1**	2,173.8	**2,439.3**	2,205.8
Other	**202.4**	214.7	**207.2**	220.3
	2,599.5	2,388.5	**2,646.5**	2,426.1

A reconciliation between fair value and carrying value of the portfolio is set out in note 11.

Gross property income	**2011 £m**	2010 £m
Office buildings	**115.5**	109.2
Other	**10.0**	10.2
	125.5	119.4

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, the following analysis is included to provide users with additional information regarding the geographical areas contained in the business review.

Property portfolio	Carrying value		Fair value	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
West End central	**1,786.3**	1,662.6	**1,806.7**	1,679.7
West End borders	**220.3**	174.5	**231.4**	178.2
City borders	**482.9**	443.3	**493.7**	456.1
Provincial	**110.0**	108.1	**114.7**	112.1
	2,599.5	2,388.5	**2,646.5**	2,426.1

Gross property income	**2011**	2010
	£m	£m
West End central	**82.5**	82.6
West End borders	**9.2**	7.3
City borders	**27.5**	23.9
Provincial	**6.3**	5.6
	125.5	119.4

5. Income

	2011	2010
	£m	£m
Rental income	**124.1**	118.8
Surrender premiums received	**2.4**	0.7
Write-off of associated rents previously recognised in advance	**(1.0)**	(0.1)
	1.4	0.6
Gross property income	**125.5**	119.4
Other income	**2.0**	1.7
	127.5	121.1

Included within rental income is £1.8m (2010: £1.0m) of income from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £8.8m (2010: £5.4m) 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. It also includes £0.2m (2010: £nil) of development income which represents 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

	2011 £m	2010 £m
Gross disposal proceeds	**132.5**	1.1
Costs of disposal	**(1.2)**	-
Net disposal proceeds	**131.3**	1.1
Carrying value	**(95.0)**	(0.2)
Adjustment for rents recognised in advance	**(0.2)**	-
	36.1	0.9

7. Finance income and costs

	2011 £m	2010 £m
Finance income		
Return on pension plan assets	**0.8**	0.8
Other	**0.3**	1.1
Total finance income	**1.1**	1.9
Finance costs		
Bank loans and overdraft	**27.0**	25.4
Non-utilisation fees	**1.9**	1.4
Secured bonds	**11.4**	11.4
Unsecured convertible bonds	**3.8**	-
Amortisation of issue and arrangement costs	**2.0**	1.0
Amortisation of the fair value of the secured bonds	**(0.8)**	(0.8)
Finance leases	**0.5**	0.5
Pension interest costs	**0.6**	0.6
Foreign exchange loss	**-**	0.2
Other	**0.1**	0.1
Gross interest costs	**46.5**	39.8
Less: interest capitalised	**(2.2)**	-
Total finance costs	**44.3**	39.8

Interest of £2.2m (2010: £nil) 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 2011 was £38.5m (2010: £38.8m) of which £2.0m (2010: £nil) was included in capital expenditure on investment properties in the Group cash flow statement under investing activities.

The foreign exchange loss in 2010 of £0.2m resulted from the translation of an intercompany loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement was minimal as there is an offsetting entry in equity (see Group statement of comprehensive income). During 2011, there was no exchange loss or gain on the intercompany loan.

Other finance income in 2010 included £0.8m received as a contribution towards the costs of arranging alternative financing upon the early repayment of a banking facility. In accordance with IAS 39, Financial Investments: Recognition and Measurement, this amount was credited to the income statement. No such contribution was received in 2011.

8. Share of results of joint ventures

	2011 £m	2010 £m
Revaluation surplus	**0.9**	0.9
Other profit from operations after tax	**0.6**	1.1
	1.5	2.0

9. Tax credit

	2011 £m	2010 Restated £m
Corporation tax credit/(charge)		
UK corporation tax and income tax on profit for the year	**(0.5)**	(1.2)
Other adjustments in respect of prior years' tax	**1.8**	0.2
	1.3	(1.0)
Deferred tax credit		
Origination and reversal of temporary differences	**0.4**	0.8
Adjustment for changes in estimates	**(0.4)**	0.2
	-	1.0
	1.3	-

In addition, £0.7m (2010: £nil) of deferred tax was recognised in the statement of comprehensive income relating to revaluation of the owner-occupied investment property.

The effective rate of tax for 2011 is lower (2010: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2011 £m	2010 Restated £m
Profit before tax	**233.0**	352.8
Expected tax charge based on the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)*	**(61.7)**	(98.8)
Difference between tax and accounting profit on disposals	**9.6**	1.6
REIT exempt income	**7.6**	8.5
Revaluation surplus attributable to REIT properties	**44.5**	83.3
Expenses and fair value adjustments not (allowable)/deductible for tax purposes	**(3.2)**	1.4
Capital allowances	**3.8**	3.4
Other differences	**(1.1)**	0.4
Tax charge on current year's profit	**(0.5)**	(0.2)
Adjustments in respect of prior years' tax	**1.8**	0.2
	1.3	-

*The expected tax rate for 2011 has been changed in line with the 2011 Finance Act.

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

On 2 June 2011, the Group issued £175m of unsecured convertible bonds. The initial conversion price of the bonds was set at £22.22 and the share price at 31 December 2011 was £15.60. Although it is not expected that the bonds would be converted at this share price, the dilutive effect of these shares is required to be recognised in accordance with IAS 33, Earnings Per Share. For the year ended 31 December 2011, these shares are dilutive for basic earnings per share. However, they are anti-dilutive for both EPRA and underlying earnings per share and all net asset per share measures, and have therefore been excluded from those calculations.

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2011 '000	2010 '000	**2011 '000**	2010 '000
Number of shares				
For use in basic measures	**101,375**	101,155	**101,641**	101,200
Dilutive effect of convertible bonds	**4,587**	-	**-**	-
Dilutive effect of share-based payments	**667**	661	**656**	669
For use in diluted earnings per share	**106,629**	101,816	**102,297**	101,869
Less dilutive effect of convertible bonds	**(4,587)**	-	**-**	-
For use in other diluted measures	**102,042**	101,816	**102,297**	101,869

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2011		232.1		217.67
Interest effect of dilutive convertible bond		(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

Year ended 31 December 2010 (restated)	352.8	343.6	339.68	337.47
Adjustment for:				
Disposal of properties	(0.9)	(0.9)		
Group revaluation surplus	(298.1)	(298.3)		
Joint venture revaluation surplus	(0.9)	(0.9)		
Fair value movement in derivative financial instruments	2.4	2.4		
Movement in valuation of cash-settled share options	(0.1)	0.1		
Minority interests in respect of the above	-	7.5		
EPRA (restated)	55.2	53.5	52.89	52.55
Foreign exchange loss	0.2	0.2		
Rates credits	(1.7)	(1.7)		
Underlying (restated)	53.7	52.0	51.41	51.07

The figures for 2010 have been restated for the change in accounting policy in respect of owner-occupied property as outlined in note 2.

	£m	Basic p	Diluted p
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	8.2		
Fair value of derivative financial instruments	50.3		
Fair value adjustment to secured bonds	18.6		
EPRA adjusted net asset value	**1,739.8**	**1,712**	**1,701**
Adjustment for:			
Deferred tax on revaluation surplus	(8.2)		
Fair value of derivative financial instruments	(50.3)		
Mark-to-market of unsecured bonds	2.4		
Mark-to-market of secured bonds	(39.4)		
EPRA triple net asset value	1,644.3	1,618	1,607

At 31 December 2010			
Net assets	1,494.7		
Minority interest	(45.9)		
Net assets attributable to equity shareholders	1,448.8	1,432	1,422
Adjustment for:			
Deferred tax on revaluation surplus	8.6		
Fair value of derivative financial instruments	25.0		
Fair value adjustment to secured bonds	19.4		
EPRA adjusted net asset value	1,501.8	1,484	1,474
Adjustment for:			
Deferred tax on revaluation surplus	(8.6)		
Fair value of derivative financial instruments	(25.0)		
Mark-to-market of secured bonds	(16.7)		
EPRA triple net asset value	1,451.5	1,434	1,425

11. Investment property

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
Carrying value						
At 1 January 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
Additions	118.0	12.6	130.6	-	2.0	132.6
Interest capitalisation	1.9	0.3	2.2	-	-	2.2
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**
At 1 January 2010 (restated)	1,526.1	350.8	1,876.9	11.7	-	1,888.6
Acquisitions	148.0	-	148.0	-	-	148.0
Capital expenditure	42.1	7.4	49.5	-	-	49.5
Additions	190.1	7.4	197.5	-	-	197.5
Transfer from trading property	1.0	-	1.0	-	-	1.0
Disposals	-	(0.2)	(0.2)	-	-	(0.2)
Depreciation	-	-	-	(0.1)	-	(0.1)
Revaluation	248.5	49.6	298.1	3.6	-	301.7
At 31 December 2010 (restated)	1,965.7	407.6	2,373.3	15.2	-	2,388.5
At 1 January 2009 (restated)	1,709.2	363.1	2,072.3	13.3	-	2,085.6
Acquisitions	-	9.8	9.8	-	-	9.8
Capital expenditure	80.2	11.3	91.5	-	-	91.5
Additions	80.2	21.1	101.3	-	-	101.3
Disposals	(207.9)	(8.1)	(216.0)	-	-	(216.0)
Depreciation	-	-	-	(0.1)	-	(0.1)
Revaluation	(55.4)	(24.1)	(79.5)	(1.5)	-	(81.0)
Grossing up of headlease liabilities	-	(1.2)	(1.2)	-	-	(1.2)
At 31 December 2009 (restated)	1,526.1	350.8	1,876.9	11.7	-	1,888.6
Adjustments from fair value to carrying value						
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**
At 31 December 2010						
Fair value	2,007.9	403.0	2,410.9	15.2	-	2,426.1
Rents recognised in advance	(42.2)	(2.8)	(45.0)	-	-	(45.0)
Grossing up of headlease liabilities	-	7.4	7.4	-	-	7.4
Carrying value	1,965.7	407.6	2,373.3	15.2	-	2,388.5
At December 2009						
Fair value	1,561.6	345.1	1,906.7	11.7	-	1,918.4
Rents recognised in advance	(35.5)	(1.7)	(37.2)	-	-	(37.2)
Grossing up of headlease liabilities	-	7.4	7.4	-	-	7.4
Carrying value	1,526.1	350.8	1,876.9	11.7	-	1,888.6

The property portfolio was revalued at 31 December 2011 by external valuers, on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CBRE Limited valued properties at £2,615.2m (2010: £2,396.2m, 2009: £1,889.9m) and other valuers at £31.3m (2010: £29.9m, 2009: £28.5m). Of the properties revalued by CBRE, £17.1m (2010: £15.2m, 2009: £11.7m) relating to owner-occupied property was included within property, plant and equipment and £137.5m (2010: £nil, 2009: £nil) was included within non-current assets held for sale.

The figures for 31 December 2010 and 31 December 2009 have been restated for the change in accounting policy in respect of owner-occupied property as outlined in note 2. Also see note 2 for the accounting policy in relation to interest capitalisation.

The revaluation surplus in the income statement of £170.1m for the year ended 31 December 2011 (2010: £298.1m) included the revaluation surplus for the non-current assets held for sale of £12.0m (2010: £nil). The revaluation surplus for the owner-occupied property of £2.0m (2010: £3.6m) was included within the revaluation reserve.

The transfer of £0.8m (2010: £nil, 2009: £nil) relates 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 have been transferred to property, plant and equipment in the current year (see note 12).

	2011	2010 (restated)	2009 (restated)
	£m	£m	£m
Historical cost			
Investment property	**2,055.5**	2,085.8	1,887.6
Owner-occupied property	**7.3**	7.3	7.2
Assets held for sale	**69.2**	-	-
Total property portfolio	**2,132.0**	2,093.1	1,894.8

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
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**
At 1 January 2010 (restated)	11.7	0.7	0.7	13.1
Additions	-	-	0.4	0.4
Disposals	-	-	(0.1)	(0.1)
Depreciation	(0.1)	-	(0.2)	(0.3)
Revaluation	3.6	-	-	3.6
At 31 December 2010 (restated)	15.2	0.7	0.8	16.7
At 1 January 2009 (restated)	13.3	0.7	0.5	14.5
Additions	-	-	0.4	0.4
Depreciation	(0.1)	-	(0.2)	(0.3)
Revaluation	(1.5)	-	-	(1.5)
At 31 December 2009 (restated)	11.7	0.7	0.7	13.1
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**
Net book value				
Cost or valuation	15.2	0.7	2.9	18.8
Accumulated depreciation	-	-	(2.1)	(2.1)
At 31 December 2010 (restated)	15.2	0.7	0.8	16.7
Net book value				
Cost or valuation	11.7	0.7	2.7	15.1
Accumulated depreciation	-	-	(2.0)	(2.0)
At 31 December 2009 (restated)	11.7	0.7	0.7	13.1

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 March 2011.

The historic cost of the artwork in the Group at 31 December 2011 was £1.5m (2010: £0.7m). See note 11 for the historic cost of owner-occupied property.

13. Other receivables (non-current)

	2011 **£m**	2010 £m
Accrued income	**50.1**	41.3
Other	**5.3**	4.5
	55.4	45.8

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods and capital contributions in lieu of rent free periods as well as contractual rent increases during the lease over the term of their respective leases. At 31 December 2011, the total rents recognised in advance were £54.4m (2010: £45.0m), with £4.3m of this amount (2010: £3.7m) included as current assets within trade and other receivables.

14. Non-current assets held for sale

	2011 **£m**	2010 £m
Investment properties (see note 11)	**137.5**	-
	137.5	-

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 has exchanged contracts to sell two properties with completion conditional on a suitable planning permission the receipt of which is expected to occur during the second half of 2012. Therefore, at 31 December 2011, these properties have been recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale. See note 11 for historic cost of non-current assets held for sale.

15. Borrowings and derivatives financial instruments

	2011 **£m**	2010 £m
Current liabilities		
Bank overdraft	**-**	5.6
Unsecured bank loan	**31.4**	-
Loan notes	**1.1**	-
	32.5	5.6
Non-current liabilities		
2.75% unsecured convertible bonds 2016	**162.4**	-
6.5% secured bonds 2026	**192.2**	192.9
Bank loans	**473.5**	656.6
Unsecured bank loan	**-**	31.4
Loan notes	**-**	1.1
Leasehold liabilities	**7.4**	7.4
	835.5	889.4
Derivative financial instruments expiring in greater than one year	**51.9**	25.4
Total liabilities	**919.9**	920.4

Reconciliation to net debt:

Total borrowings and derivative financial instruments	**919.9**	920.4
Less:		
Derivative financial instruments	**(51.9)**	(25.4)
Cash and cash equivalents	**(3.5)**	(7.2)
Net debt	**864.5**	887.8

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. The carrying value at 31 December 2011 was £162.4m.

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(9.6)
Debt component on issue	165.4
Unamortised issue costs	(4.0)
Amortisation of fair value adjustment	1.0
Carrying amount included in total debt at 31 December 2011	162.4

16. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2011	8.9	(3.0)	5.9
Released during the year in other comprehensive income	(0.7)	-	(0.7)
Provided/(released) during the year in the income statement	1.2	(0.8)	0.4
Change in tax rates	(0.6)	0.2	(0.4)
At 31 December 2011	**8.8**	**(3.6)**	**5.2**
At 1 January 2010	8.1	(2.2)	5.9
Provided during the year in other comprehensive income	1.0	-	1.0
Provided/(released) during the year in the income statement	0.1	(0.9)	(0.8)
Changes in tax rates	(0.3)	0.1	(0.2)
At 31 December 2010	8.9	(3.0)	5.9

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.

17. Dividends

	Payment date	Dividend per share p	**2011 £m**	2010 £m
Current year				
2011 final dividend	15 June 2012	21.90	**-**	-
2011 interim dividend	4 November 2011	9.45	**9.6**	-
Distribution of current year profit		31.35	**9.6**	-
Prior year				
2010 final dividend	16 June 2011	20.25	**20.5**	-
2010 interim dividend	5 November 2010	8.75	**-**	8.8
Distribution of prior year profit		29.00	**20.5**	8.8
2009 final dividend	17 June 2010	18.85	**-**	19.1
Dividends as reported in the Group statement of changes in equity			**30.1**	27.9
2011 interim dividend witholding tax	27 January 2012		**(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**	(1.4)
2009 interim dividend withholding tax	14 January 2010		**-**	1.3
Dividends paid as reported in the Group cash flow statement			**25.4**	27.8

18. Gearing ratios

Balance sheet gearing

	2011 £m	2010 £m
Net debt	**864.5**	887.8
Net assets	**1,714.5**	1,494.7
Balance sheet gearing	**50.4%**	59.4%

Loan to value ratio

	2011 £m	2010 £m
Net debt	**864.5**	887.8
Unamortised issue costs and fair value adjustment of secured bonds	**(18.6)**	(19.4)
Unamortised arrangement costs	**7.9**	5.9
Leasehold liabilities	**(7.4)**	(7.4)
Drawn facilities	**846.4**	866.9
Fair value of property portfolio	**2,646.5**	2,426.1
Loan to value ratio	**32.0%**	35.7%

Interest cover ratio

	2011	2010
	£m	£m
Gross property income	**125.5**	119.4
Surrender premiums	**(2.4)**	(0.7)
Ground rent	**(0.8)**	(0.8)
Gross rental income net of ground rent	**122.3**	117.9
Net finance costs	**43.2**	37.9
Foreign exchange loss	**-**	(0.2)
Net pension return	**0.2**	0.3
Finance lease costs	**(0.5)**	(0.5)
Amortisation of fair value adjustment to secured bonds	**0.8**	0.8
Amortisation of issue and arrangement costs	**(2.0)**	(1.0)
Non-utilisation fees	**(1.9)**	(1.4)
Net interest payable	**39.8**	35.9
Interest cover ratio	**307%**	328%

19. Total return

	2011	2010
	%	%
Total return	**17.4**	29.3

20. Cash and cash equivalents

	2011	2010
	£m	£m
Overdrafts	**-**	(5.6)
Short-term deposits	**3.5**	7.2
	3.5	1.6

21. Post balance sheet events

In February 2012, the Group signed a joint venture agreement with Grosvenor for the future redevelopment of 1-5 Grosvenor Place, Belgravia SW1. As part of the transaction the headleases, that were due to expire in 2063 and 2084, were regeared into a new 150-year term at a ground rent of 5% of rental income. Simultaneously, the Group has sold 50% of its ownership to Grosvenor and received £60m, before costs.

22. Risk Management

Risk management and internal control

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

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

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

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

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

Strategic risks

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

Risk and effect	**Controls and mitigation**	**Action**
• The Group's strategy is inconsistent with the state of the market in which it operates. The Group benefits from a strong central London market. This could be adversely affected by, amongst other factors, ongoing crisis in the Eurozone, the introduction of a "Tobin" tax or the loss of London's current "safe haven" status.	• Each year the Group carries out a five-year strategic review, prepares a budget and also frequent rolling forecasts covering the next two years. In the course of both exercises the Board considers the effect on key ratios of changing the main underlying assumptions.	• The Board carried out its last annual strategic review in June 2011 and considered the sensitivity of six key measures to changes in eight underlying assumptions including interest rates, property yields, rental growth and capital recycling.
• The Group's development programme is not consistent with the economic cycle.	• The Group's plans can then be set so as to best realise its long-term strategic goals given the likely prevailing economic and market conditions. This flexibility arises from the policy of maintaining income from properties as far as possible until development starts.	• The three rolling forecasts prepared during the year focused on the same key measures but considered the effect of varying different assumptions to reflect changing economic and market conditions.
	• 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 timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations.
	• The risk remains significant and therefore in setting its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	

Financial risks

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

Risk and effect	Controls and mitigation	Action
• A substantial decline in property values or a material loss of rental income could result in a breach of the Group's financial covenants. This may accelerate the repayment of the Group's borrowings or result in their cancellation.	• The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as overall balance sheet gearing. Treasury control schedules are updated weekly whilst the rolling forecasts enable any potential problems to be identified at an early stage and corrective action to be taken. The Group has considerable headroom under its financial covenants, operates at a modest level of gearing and has a substantial amount of uncharged property that could be used in such circumstances.	• The Group issued £175 million of unsecured convertible bonds during 2011. • The Group tested its compliance with its financial covenants regularly and operated comfortably within these limits throughout 2011. Property values could decline by 50% at the balance sheet date before there would be a breach of financial covenants. • At the year end the Group owned £589m of uncharged properties.
• The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources.	• The Group's five-year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This allows the preferred source of finance to be identified and evaluated and, to a degree, raised when market conditions are favourable.	• The Group's financing comes from a number of different sources/providers and has a varied maturity profile. The proportion of the Group's borrowings provided by bank loans has fallen from 80% to 59% over the year. • During 2011 the Group refinanced £600 million. • The weighted average duration of the Group's debt is 4.4 years. • At the year end the Group had £469m of unutilised committed bank facilities.
• Financing costs are higher due to increases in interest rates.	• The Group uses interest rate derivatives to "top up" the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	• The Group has terminated two interest rate swaps which were at historic rates and initiated new instruments which have enabled the Group to lock in the lower rates that are available. • 98% 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.

Risk and effects	Controls and mitigation	Action
• The Group's development projects do not produce the anticipated financial return due to delays in the planning process, increased construction costs or adverse letting conditions.	• Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group's development programme is managed to reflect anticipated market conditions. • Regular cost reports are produced which monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage. • Post completion reviews are carried out for all developments to ensure that improvements to the Group's procedures are identified and implemented.	• The Group is advised by top planning consultants and has considerable in-house planning expertise. • Executive directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. • The procurement process used by the Group includes the use of top firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing. • The Group's style of accommodation remains in demand as evidenced by the 100 lettings achieved in both 2010 and 2011. • The Group has secured pre-lets for approximately 50% of the space in its current development programme which significantly "de-risks" these projects.
• The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. In particular, in the current adverse economic conditions, there is increased stress on consumer spending which could lead to higher business failures.	• All prospective tenants are considered by the Group's credit committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. • The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.	• The Group has a diversified tenant base. • The credit committee meets each week and considered 117 potential tenants during the year. The committee also monitors the content of a schedule of the tenants that the property managers are monitoring and the actions being taken. • In total the Group holds rental deposits amounting to £11.3 m. • On average, the Group has collected 98% of the rents due within 14 days of the due date.

• The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	• The remuneration packages of all employees are benchmarked regularly. • Six-monthly appraisals identify training requirements which are fulfilled over the next year.	• The Group has recruited 8 new members of staff during the year including key appointments in IT and corporate communications. • Staff turnover during 2011 was low at 6%.
• The Group's cost base is increased or its reputation damaged through a breach of any of the legislation that forms the regulatory framework within which the Group operates.	• The new Risk Committee will report to the Board concerning the Group's regulatory risk. • The Group employs a Health and Safety Manager. • A sustainability committee chaired by Paul Williams and advised by external consultants addresses risk in this area.	• A Health and Safety report is presented at all executive and main Board meetings. • The Group pays considerable attention to sustainability issues and produces a sustainability report annually.

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- credit risk;
- fair value or cash flow interest rate risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these condensed financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank, bank overdraft, trade and other payables, floating rate bank loans, secured and unsecured bonds, interest rate swaps and, in 2010, interest rate caps.

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 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 at least 60% and no more than 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2011, the portion of fixed debt held by the Group was above this range at 98%. In January 2012, the interest rate swaps were broken and replaced with a lower value of swap. This had the effect of reducing this figure to 90%. During both 2011 and 2010, 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. 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-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 banks so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of balance sheet gearing and the loan to value ratio. During 2011, the Group's strategy, which was unchanged from 2010, was to maintain the balance sheet gearing below 80% in normal circumstances. These two gearing ratios as well as the interest cover ratio are defined at the end of this announcement and are derived in note 18.

23. 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 2011.

24. 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. In October 2010, EPRA published its Best Practices Recommendations (www.epra.com/media/EPRA_2010_BPR.pdf). This includes guidelines 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.

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

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

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

Balance sheet gearing
Net debt divided by net assets.

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

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

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

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

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

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

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

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

Total 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' estimate rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Assumes rent is received quarterly in advance.

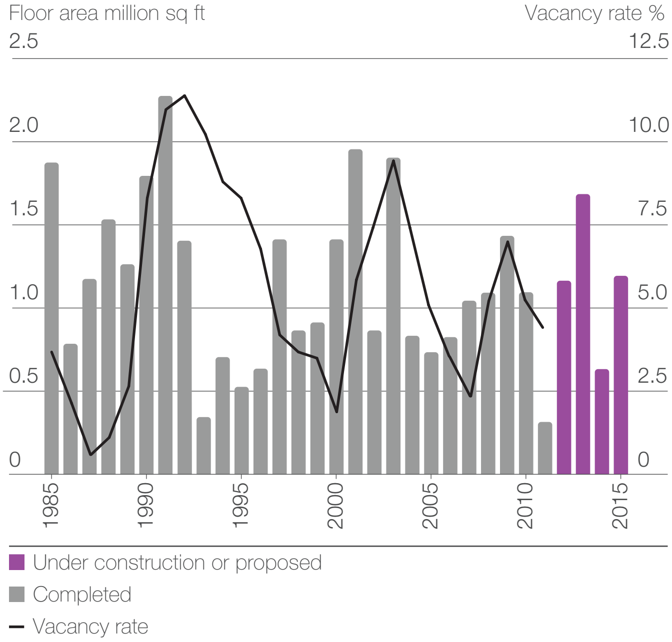
Reversion
The reversion is the amount by which the rental value as estimated by the Group's external valuers is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

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

25. 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

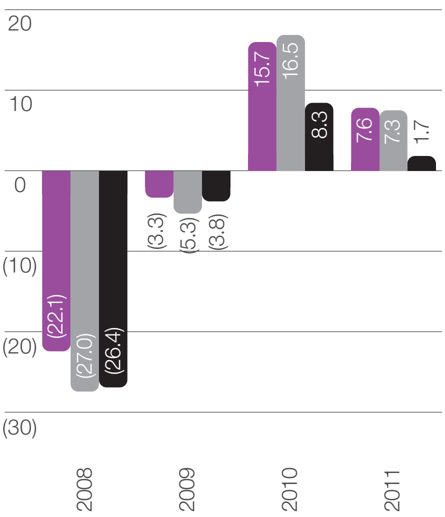
Appendix 2
Valuation

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance[2,3] £m	Total floor area m²	Available floor area m²	Project floor area m²
West End							
Central	1,806.7	68	6.1	100.9	285,100	1,100	46,200
Borders	231.4	9	25.8	46.3	53,000	700	6,300
	2,038.1	77	8.1	147.2	338,100	1,800	52,500
City							
Borders	493.7	19	7.1	32.7	126,100	3,700	12,300
Central London	2,531.8	96	7.9	179.9	464,200	5,500	64,800
Provincial	114.7	4	1.5	1.8	37,200	200	–
Total portfolio 2011	**2,646.5**	**100**	**7.6**	**181.7**	**501,400**	**5,700**	**64,800**
2010	2,426.1	100	15.7	309.4	500,200	24,500	17,600

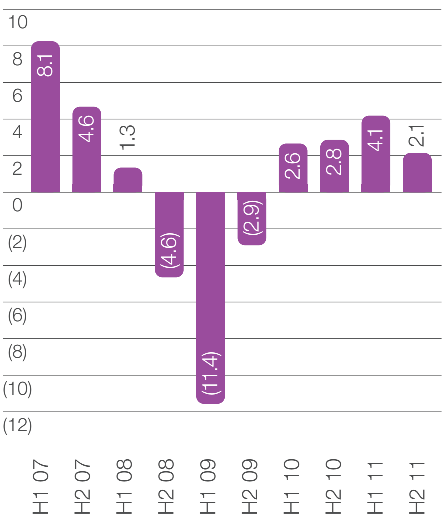
[1] Properties held throughout the year
[2] Including acquisitions
[3] Before lease incentive adjustments of £9.6m

Valuation performance %



[1] Quarterly Index

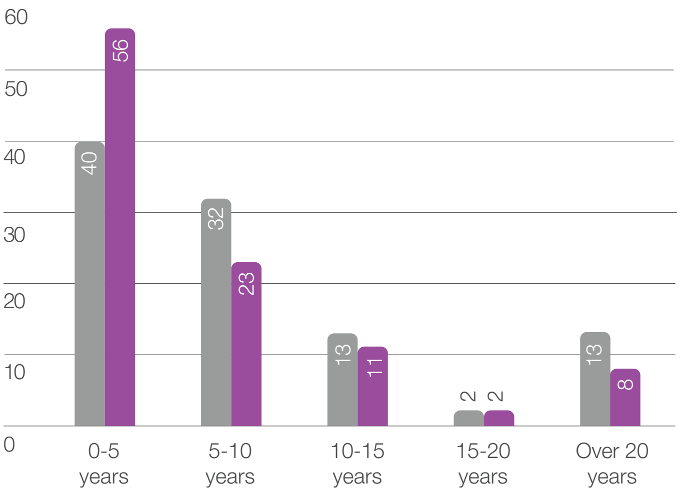
Rental value growth[1] %



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

Appendix 3
Portfolio management

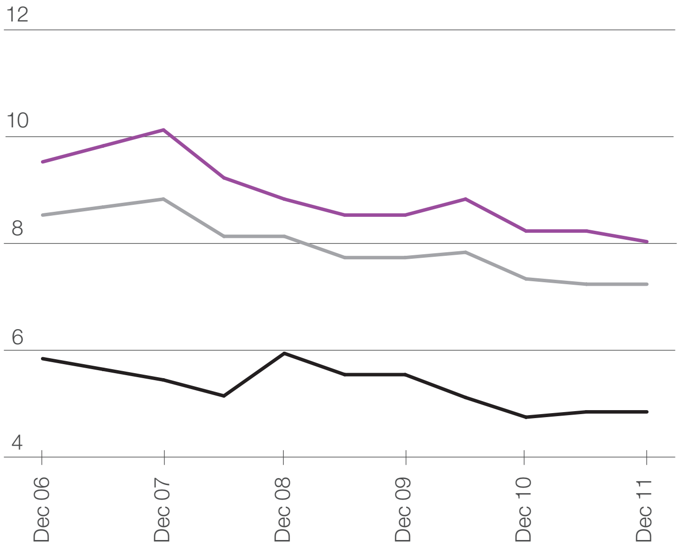
Profile of rental income expiry[1] %



No lease breaks exercised
Lease breaks exercised at first opportunity

[1] Based upon annualised contracted rental income of £113.1m

Average unexpired lease length[1] Years



— West End
— City borders
— Central London

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

Profile of tenants' business sectors %

Media, TV, marketing and advertising	29
Professional and business services	28
Retail sales	13
Retail head offices, showrooms	12
Government and public administration	3
Financial	6
Other	9

Appendix 3
Portfolio management

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	77.5	328	13.3	13.0	103.8	8.0
Borders	4.8	105	2.0	9.3	16.1	7.2
	82.3	292	15.3	22.3	119.9	8.0
City						
Borders	25.2	231	5.3	3.8	34.3	4.8
Central London	107.5	275	20.6	26.1	154.2	7.2
Provincial	5.6	150	–	0.6	6.2	6.3
Total portfolio 2011	**113.1**	**264**	**20.6**	**26.7**	**160.4**	**7.2**
2010	116.2	255	13.5	17.6	147.3	7.3

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

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		113.1
Contractual rental increases across the portfolio	20.8	
Letting 5,700m² available floor area	1.9	
Completion and letting 64,800m² of project floor area	18.7	
Anticipated rent review and lease renewal reversions	5.9	
Portfolio reversion		47.3
Portfolio estimated rental value		160.4

Appendix 4
Projects

Project summary

2012-2013

	Current net income £m pa	Pre-scheme area m²	Proposed area m²	Capital expenditure £m	Potential delivery Year
On site at December 2011					
1 Page Street SW1	–	11,000	11,800	29.8	Q2 2013
Buckley Building EC1	2.5	7,000	7,900	12.8	Q4 2012
4 & 10 Pentonville Road N1	–	4,100	5,100	6.9	Q3 2012
Central Cross W1 – Phases 1 & 2	0.9	3,900	4,100	12.6	Q4 2013
Morelands Buildings EC1	0.3	1,600	2,500	5.6	Q4 2012
	3.7	27,600	31,400	67.7	
2012					
40 Chancery Lane WC2	0.7	5,700	9,300	43.6	Q4 2014
Turnmill EC1	0.3	3,800	6,500	25.8	Q3 2014
	1.0	9,500	15,800	69.4	
2013					
80 Charlotte Street W1	4.7	20,700	34,100	126.3	2015
96-98 Bishop's Bridge Road W2	–	–	2,000	12.0	2014
	4.7	20,700	36,100	138.3	
Planning and design				13.5	
Other				43.6	
Total	9.4	57,800	83,300	332.5	

2014 onwards

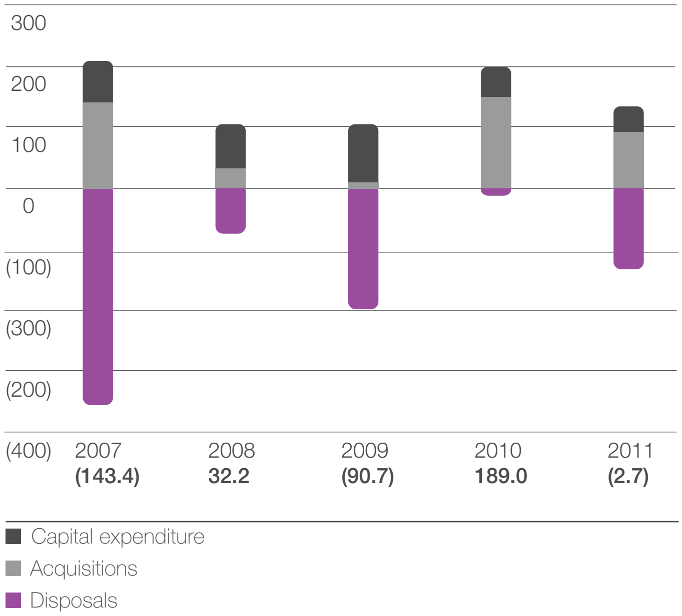
	Current net income £m	Pre-scheme area m²	Proposed area m²	Vacant possession Year	Comment
City Road Estate EC1	0.8	11,500	26,800	2012	Consented scheme, pre-let required
Balmoral Grove Buildings N7	0.2	4,600	15,100	2013	Appraisal studies
1-5 Grosvenor Place SW1	6.1	15,600	24,200	2014/2016	Appraisal studies
55-65 North Wharf Road W2	1.0	7,200	29,100	2014	Consented scheme
Central Cross W1 – Phase 3	0.8	3,200	4,800	2014	Appraisal studies
1 Oxford Street W1	-	-	25,500	c.2017	Planning application submitted
	8.9	42,100	125,500		

Other

	Current net income £m	Pre-scheme area m²	Proposed area m²	Vacant possession Year	Comment
Riverwalk House SW1	–	7,000	13,700	Vacant	Planning application submitted
132-142 Hampstead Road NW1	–	21,400	24,600	Vacant	Scheme options under review in light of HS2
Wedge House SE1	0.3	3,600	7,400	2012	Renewing planning permission
60 Commercial Road E1	0.5	2,800	11,300	2012	Consented scheme
	0.8	34,800	57,000		

Appendix 4
Projects

Net investment £m



Appendix 5
Finance review

EPRA net asset value

	2011 £m	per share p	2010 £m	per share p
Net assets	**1,714.5**		1,494.7	
Less minority interest	**(51.8)**		(45.9)	
Net assets attributable to equity shareholders	**1,662.7**	**1,636**	1,448.8	1,432
Adjustment for:				
Deferred tax on revaluation surplus	**8.8**		8.9	
Less share of minority interest	**(0.6)**		(0.3)	
Fair value of derivative financial instruments	**51.9**		25.4	
Less share of minority interest	**(1.6)**		(0.4)	
Fair value of adjustment to secured bonds	**18.6**		19.4	
	77.1		53.0	
EPRA adjusted net assets - undiluted	**1,739.8**	**1,712**	1,501.8	1,484
- diluted		**1,701**		1,474

Like-for-like rental income

	Properties owned throughout the two years £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2011					
Rental income	99.1	10.6	2.1	12.3	124.1
Property expenditure	(6.9)	(0.7)	0.2	(3.5)	(10.9)
Net rental income	**92.2**	**9.9**	**2.3**	**8.8**	**113.2**
Other[1]	4.1	–	–	0.4	4.5
Net property income	**96.3**	**9.9**	**2.3**	**9.2**	**117.7**
2010					
Rental income	96.8	3.4	3.8	14.8	118.8
Property expenditure	(6.9)	(0.4)	(0.5)	(1.7)	(9.5)
Net rental income	89.9	3.0	3.3	13.1	109.3
Other[1]	3.0	–	–	0.7	3.7
Net property income	92.9	3.0	3.3	13.8	113.0
Increase based on gross rental income	**2.4%**				**4.5%**
Increase based on net rental income	**2.6%**				**3.6%**
Increase based on net property income	**3.7%**				**4.2%**

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

Appendix 5
Finance review

Net debt

	2011 £m	2010 £m
Cash	**(3.5)**	(7.2)
Bank overdraft	**–**	5.6
Revolving bank facilities	**477.0**	661.0
Unsecured loan	**31.4**	31.4
Loan notes	**1.1**	1.1
Secured bonds 2026	**175.0**	175.0
Fair value and issue costs	**17.2**	17.9
Unsecured convertible bond 2016	**175.0**	–
Issue costs, equity component and unwinding of discount	**(12.6)**	–
Leasehold liabilities	**7.4**	7.4
Bank loan arrangement costs	**(3.5)**	(4.4)
Net debt	**864.5**	887.8

Gearing and interest cover ratio

	2011 %	2010 %
Balance sheet gearing	**50.4**	59.4
Loan to value ratio	**32.0**	35.7
Interest cover ratio	**307**	328

Hedging and borrowing

	2011 Proforma £m[1]	2011 £m	2010 £m
Bank loans			
Floating rate	**15.4**	15.4	259.4
Capped	**–**	–	10.0
Swapped	**493.0**	493.0	423.0
	508.4	508.4	692.4
Floating rate loan notes	**1.1**	1.1	1.1
Fixed rate secured bonds 2026	**175.0**	175.0	175.0
Fixed rate unsecured bonds 2016	**175.0**	175.0	–
Total	**859.5**	859.5	868.5
Hedged and fixed rate (%)	**90**	98	70
Weighted average cost of debt (%)[2]	**4.37**	4.65	4.34
Weighted average cost of debt (%)[3]	**4.62**	4.91	4.34
Weighted average maturity of facilities (years)	**5.2**	4.4	5.2
Weighted average maturity of swaps (years)	**6.5**	5.0	5.8

[1] After new facilities, extensions and swap arrangements entered into in January 2012
[2] Convertible bonds at 2.75%
[3] Convertible bonds on IFRS basis

Appendix 5
Finance review

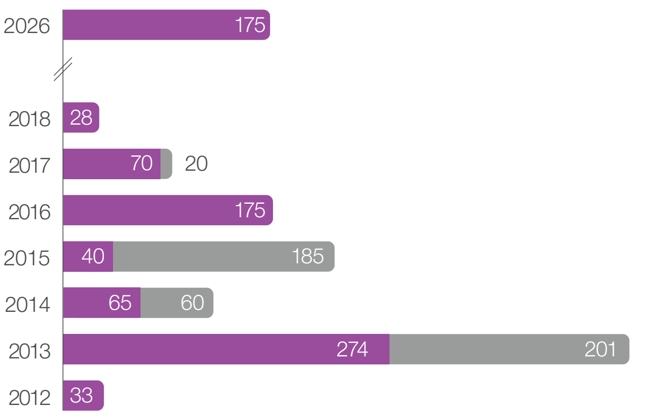
Debt facilities

	£m	Proforma £m	Maturity	£m	December 2011 £m	Maturity
6.5% secured bonds		175	March 2026		175	March 2026
2.75% unsecured convertible bonds		175	July 2016		175	July 2016
Loan notes		1.1	Repaid January 2012		1.1	Repaid January 2012
Overdraft		10	On demand		10	On demand
Committed bank facilities						
Term	28		June 2018[1]	28		June 2018[1]
Term/revolving credit	90		December 2017	90		December 2017
Revolving credit	125		November 2015	125		November 2015
Revolving credit	100		April 2015	100		April 2015
Term/revolving credit	125		April 2014	125		April 2014
Revolving credit	150		January 2017	100		November 2013
Term/revolving credit	150		March 2013	375		March 2013
Term unsecured	31.4		June 2012	31.4		June 2012
Revolving credit	150		January 2017	–		n/a
		949.4			974.4	
Total debt facilities		**1,310.5**			**1,335.5**	

All facilities are secured unless noted otherwise

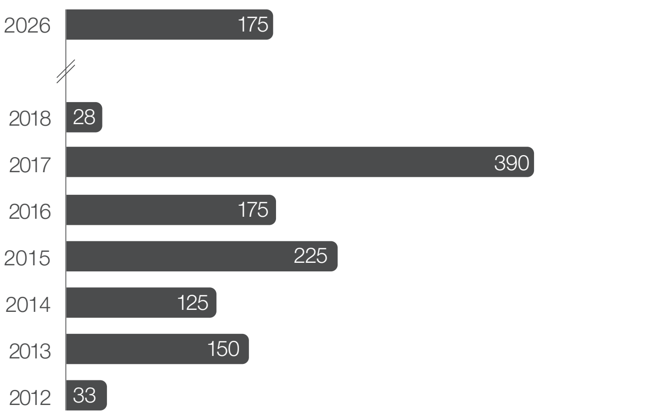
[1] Subject to credit review in 2013

Maturity profile of loan facilities
As at 31 December 2011[1] £m



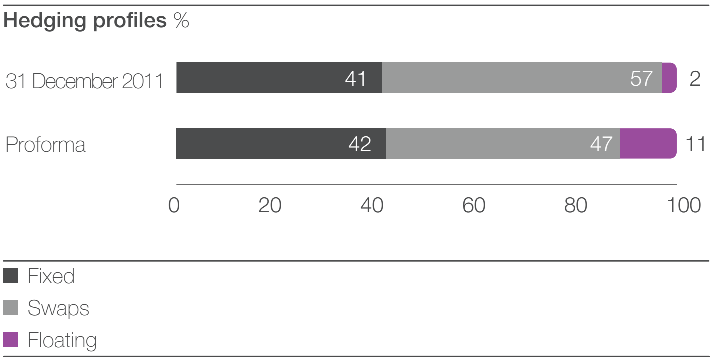
■ Headroom
■ Drawn

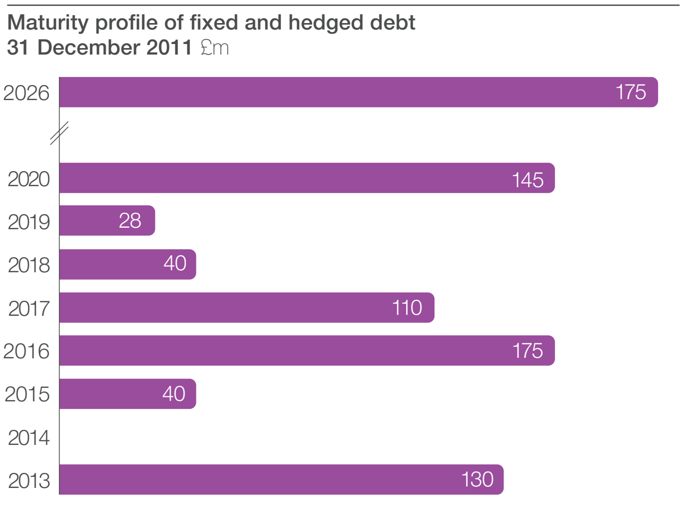
Maturity profile of loan facilities
Proforma[2] £m

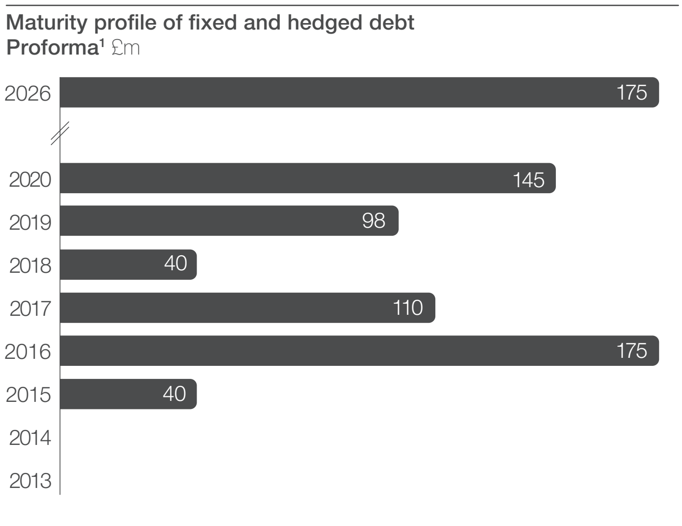


[1] Excludes £10m overdraft facility
[2] After new facilities entered into in January 2012

Appendix 5
Finance review







[1] After new facilities and swap arrangements entered into in January 2012