

25 August 2010

DERWENT LONDON PLC

Interim results for the six months ended 30 June 2010

DERWENT LONDON ANNOUNCES STRONG INTERIM RESULTS

Derwent London is pleased to announce a strong set of results for the six months ended 30 June 2010.

Highlights

- Adjusted net asset value per share increased 17% to 1,365p in the six months and 37% over the last 12 months (31 December 2009: 1,168p; 30 June 2009: 993p)
- Portfolio revaluation increase of £199.8m (10.3%) following a 9.8% rise in the second half of 2009
- Profit before tax of £216.4m (30 June 2009: loss of £223.3m)
- Adjusted recurring profit before tax of £25.6m (30 June 2009: £27.8m)
- Strong operational performance with 47 lettings totalling 11,700m² (125,700 sq ft) at £3.5m p.a. in the first half and a further 8,100m² (87,200 sq ft) let or under offer since 1 July at £1.9m p.a. including 690m² (7,400 sq ft) at Charlotte Building, W1, announced today
- Vacancy rate by rental value decreased to 2.2% at 30 June
- Projects in progress of 37,400m² (403,000 sq ft) including the 24,400m² (263,000 sq ft) Angel Building
- £409m of undrawn, committed bank facilities at 30 June 2010
- Major West End acquisition in third quarter: 23,300m² (251,000 sq ft) at Central Cross, London W1, for £146m with significant opportunities for future refurbishment and improvement
- Interim dividend increased by 7.4% to 8.75p per share

John Burns, Chief executive, commented:

“We are pleased to announce a strong set of results for the first six months of 2010. Since the half year further good letting progress has been made with 8,100m² (87,200 sq ft) of floorspace either let or placed under offer at an annual rental income of £1.9m. In addition, we were pleased to complete the recent West End acquisition of Central Cross. This is an excellent addition to our central London portfolio which provides strong passing income together with opportunities for active management.

Our largest regeneration scheme to date, the Angel Building, will shortly be completed and we look forward to launching the marketing campaign for the un-let space at this exciting development in October.

The defensive qualities of the central London office market remain sound and there continues to be demand for our distinctive brand of design-led, affordable space. The group remains in excellent financial health and we are well placed to make the most of future opportunities.”

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DERWENT LONDON INTERIM REPORT 2010

Chairman's statement

Overview

Derwent London's strong performance during the first half of the year has shown, once again, that the group's business model adapts to evolving market conditions and that the group has been able to capitalise on opportunities as they were identified.

The improved conditions that emerged within both our investment and occupational markets in central London during the second half of 2009 continued into the first half of 2010. Property investment yields moved downwards, particularly in the first quarter of the year, and the signs of selective rental growth, which were referred to in our year end results, are now more evident. These factors are reflected in an increase of 17% in the adjusted net asset value per share attributable to ordinary shareholders to 1,365p at 30 June 2010 from 1,168p at the year end.

Since the UK general election in May 2010 and the subsequent emergency budget, the growing confidence in the general economy apparent during the first six months now seems more restrained and the valuation outlook for the rest of the year is likely to be more finely balanced.

We delivered another strong letting performance in the six months to 30 June 2010, completing leasing transactions with an annual rent of £3.5m. Since the half year, we have let or placed under offer further space with annual rental income of £1.9m. This activity reduced the group's vacancy rate from 3.6% at the last year end to 2.2% at 30 June 2010 and subsequently to 1.0%.

During the first half of the year, we maintained our disciplined approach to active asset management and made good progress on a number of refurbishment and development projects, the details of which are provided in the business review.

On 28 July 2010, we were pleased to announce a major new West End acquisition, Central Cross, fronting Tottenham Court Road, London W1, for £146m before costs. This fully let, 23,300m² (251,000 sq ft), office and retail building, is situated on a site of 2.1 acres, in an improving area that will benefit from a number of infrastructure enhancements including Crossrail. The building has strong passing income together with many opportunities for rebranding and creating space in the Derwent London style, and our plans for its refurbishment and upgrading are already taking shape. These include establishing a new identity for the property by creating a striking new entrance, enhancing the retail space and refurbishing the office elements as space becomes available through lease breaks or expiries.

Results

The increase in adjusted net asset value per share in the first half of 2010 was driven by an underlying increase in investment property valuation of 10.3% which took the value of the portfolio to £2.15bn at 30 June 2010 from £1.92bn at 31 December 2009. The valuation increase was £201.2m, before taking account of lease incentives of £1.4m, giving an overall increase for the period of £199.8m.

As previously noted, strong investor demand brought further yield compression and the true equivalent yield within the portfolio reduced to 5.9% at 30 June 2010 from 6.4% at the previous year end.

Profit before tax for the first half of 2010 was £216.4m compared to a loss of £223.3m in the first half of 2009 due primarily to the dramatic change in valuation sentiment between the two periods. The adjusted recurring profit before

tax was £25.6m for the half year to 30 June 2010 compared to £27.8m in the first half of 2009. Gross property income declined to £57.4m from £63.1m for the comparable period, predominantly due to the property sales made in 2009 which also contributed to the decrease in finance costs from £20.6m in the first six months of 2009 to £18.8m in the current period. Adjusted recurring earnings per share were 24.03p compared with 24.90p for the half year to 30 June 2009.

The group's gearing ratios have benefited from the valuation movements and the group's loan-to-value ratio fell from 36.4% at 31 December 2009 to 33.8% at 30 June 2010, despite a modest increase in net debt. The group's interest expense remains well covered at 320%. The acquisition of Central Cross has increased the group's loan-to-value ratio to about 38.0% but further strengthened the interest cover.

As at 30 June 2010, the group retained £409m of undrawn bank facilities. In addition, it held about £370m of uncharged properties.

Dividend

The board has raised the interim dividend from 8.15p per share in 2009 to 8.75p per share in 2010, which will all be paid as a property income distribution. This reflects an increase of 7.4%, consistent with the board's progressive dividend policy and supported by dividend cover which is amongst the strongest in the UK REIT sector. Payment will be made on 5 November 2010 to shareholders on the register at the close of business on 1 October 2010.

Market and activity update

The acquisition of Central Cross, completed on 10 August 2010, was the group's first major acquisition for almost three years. This followed a period of consolidation from 2007 to 2009, during which we sold over £600m of properties and concentrated on income retention, active portfolio management and refurbishment whilst also advancing the future development pipeline. Central Cross was one of the few potential acquisitions that we considered in our central London villages that had scope for the application of our management skills.

The group incurred capital expenditure of £29.6m in the first half of the year of which £18.9m related to the Angel Building. This development is due to be completed during September 2010 at which time the formal marketing campaign for the un-let space will be launched.

The planning environment in central London remains challenging and we were disappointed in May to lose a planning appeal for a new-build scheme at Turnmill in Clerkenwell. We are revising our plans and expect to submit an application for a 6,300m² (68,000 sq ft) scheme before the end of the year. Other planning applications in preparation include the "White Collar Factory" office development at Hampstead Road in Euston, totalling 24,600m² (265,000 sq ft), which is due to be submitted this quarter.

The London villages in which we operate continue to exhibit very limited supply and we are moving forward with a number of other refurbishment projects and asset management initiatives, further details of which are provided in the business review.

New board member

I am very pleased to welcome Stephen Young who joined the board on 2 August 2010. Stephen's experience as the finance director of Meggitt plc, the FTSE 250 engineering and aviation electronics company, will add valuable experience to the board from outside the real estate sector. It is intended that Stephen will join a number of board committees including the audit committee.

Outlook

The defensive qualities of the central London office market remain sound and we are confident that our active management approach, mid-market rents and relatively low capital values will continue to deliver value-enhancing projects across the portfolio. At a time of uncertain economic conditions the group remains in excellent financial health and, with its experienced management team, is well-placed to take advantage of future opportunities.

R.A. Rayne**25 August 2010**

Business review

Our market

The UK economy grew by 1.4% in the first half of 2010, expanding 0.3% during the first quarter followed by a sharp pick-up in activity to 1.1% in the second quarter. Whilst the latter marked the fastest quarterly expansion since 2006, there are ongoing concerns about the UK economy's future performance, including the impact of the government's recently announced tightening of fiscal measures, which were evident in the recent downward revision of the Bank of England's growth forecasts for the next three years. The service sector, which comprises 75% of the UK economy and is a key determinant in the demand for office space, accounted for the majority of this expansion, posting its strongest rise in almost three years. This is positive for occupier demand in our main market, central London offices, where office take-up was nearly 15% above the 10-year average and double that seen during the first half of 2009. Delivery of new space remained limited and, consequently, the office vacancy rate in our market decreased, incentives reduced and rental growth returned. Despite this the market remains cautious. The improving UK economic environment continued to attract substantial investment interest, from both domestic and overseas investors. The central London office market was particularly active in the first half of this year with £3.1bn of transactions compared to £2.3bn in the same period last year.

Our portfolio

Valuation

At the year end, we reported strong investor demand and an improving occupational and rental outlook in the central London office market and these trends continued during the first half of 2010.

At 30 June 2010, the investment portfolio was valued at £2.15bn. Over the six month period, there was a valuation surplus of £201.2m before lease incentives of £1.4m, giving a total movement of £199.8m. Whilst yield compression was the main driver of this strong performance, there was also a return to rental growth, albeit at a modest level.

The underlying valuation change for the six months was a 10.3% increase following a 9.8% gain in the second half of 2009. We believe that this is a commendable performance given the high proportion of the portfolio, approximately 50%, which comprises current or future schemes where we believe there is substantial value to be unlocked. Within the investment portfolio, the development properties were valued at £103.0m and rose 10.5% or £9.8m over the period. Over the six months, the strongest valuation performance came from our West End properties, representing 75% of the portfolio, which rose by 11.6%. Our City border properties, comprising 20% of the portfolio, rose by 5.9%. The balance, our Scottish holdings, increased by 9.9%.

The healthy demand for our office space was reflected in the fact that the portfolio's central London rental values increased by 2.9% over the first half. This marked a return to rental growth following a 2.9% decline in the second half of 2009. Overall, the portfolio's estimated rental value increased by 2.6% over the first six months of the year.

The portfolio's initial yield, excluding development properties such as the Angel Building, was 5.3% at 30 June 2010 and offers significant reversionary potential. This yield would rise to 6.0% at full reversion. Including developments, the initial yield was 5.0%, rising to 5.3% upon the expiry of the rent free period granted to Cancer Research UK at the Angel Building, and 6.2% at full reversion. Average rents across our portfolio are low at £255 per m² (£23.52 per sq ft) and from this level offer good prospects for growth in the improving market.

Strong demand for investment properties drove the portfolio's true equivalent yield to 5.9% at the half year, down from 6.4% at the beginning of the year. This followed a similar yield compression in the second half of 2009.

The group's total property return was 13.3% for the first half of 2010 against the IPD Central London Office Index of 14.2% and All Property Index figure of 9.6%. Over the six month period the IPD Capital Growth Index increased by 11.2% for central London offices and 6.2% for all UK property.

Lettings

The group has an established reputation for delivering high quality, well designed space at middle market rents, and our distinctive trademark space appeals to a wide range of tenants. During the first half of the year, we completed 47 leasing transactions at an annual rent of £3.5m on floorspace of 11,700m² (125,700 sq ft). There were 21 lettings at £2.2m pa during the first quarter and 26 lettings at £1.3m pa in the second. In total, 85% (£3.0m pa) of the income derived from space that was vacant at the start of the year. Three quarters of the activity was on an open-market basis whilst the balance comprised short-term lettings that maintained flexible possession at our future developments. The rental levels achieved on the open-market lettings were 5.0% above 31 December 2009 estimated rental values, endorsing the demand for our space. Overall, the rents achieved were slightly above the estimated rental values at December.

Following the completion of our award-winning seven-storey Charlotte Building at the end of last year, the 4,400m² (47,000 sq ft) property is now fully let. During the first quarter, Converse, a division of Nike Inc, took two floors at £0.7m pa and design specialist Brandopus took another at £0.2m pa, both reflecting a rent of £475 per m² (£44 per sq ft). The 690m² (7,400 sq ft) final floor has been let since the end of the first half to LinkedIn, the professional networking website, at £0.4m pa. This equates to £510 per m² (£47.50 per sq ft), further illustrating the improving rental climate.

The majority of our short-term lettings were at 1-5 Grosvenor Place where we secured £0.7m pa of rental income in three transactions and achieved rents up to £455 per m² (£42 per sq ft). These maintained an important source of income whilst preserving the potential for redevelopment from 2014 onwards.

The portfolio's vacancy rate (by estimated rental value) decreased from 3.6% at the start of the year, to 2.2% at the half-year. By floorspace, the movement was from 3.8% to 2.7%.

We have already made good progress since the half-year with 8,100m² (87,200 sq ft) of floorspace either let or placed under offer at an annual rental income of £1.9m. This represents over 50% of our available space and includes the final floor at the Charlotte Building mentioned above. At the Strathkelvin Retail Park in Scotland, we have improved the planning position by securing a change in use from bulky goods to general retail. Both Boots and Pets at Home have taken units and a further is under offer; the combined rental income is over £0.5m pa.

This activity has further reduced the vacancy rate to approximately 1.0%. However, available space is likely to increase to around 9% as projects with an estimated rental value of £10.6m pa, principally the Angel Building, are completed. The portfolio's 10-year average vacancy rate is 5.1%.

Asset management

During the first half of the year, 27 lease renewals and 19 rent reviews were concluded at a combined rent of £5.1m pa. These were marginally above both the previous rents and the year end estimated rental values.

With regard to tenant retention, lease expiries and breaks across the portfolio totalled £12.2m pa. Excluding space taken back for identified projects, which represented £6.4m pa, 80% of this income was retained with a further 7% re-

let during the period. This continues our successful track record of tenant retention and compares to 66% retained and 18% re-let in the whole of last year.

Rent collection remained prompt with, on average, 96% of rent collected within 14 days of the due date. This is similar to the performance achieved throughout 2009. Our diverse and strong tenant base continues to ensure that we are not over exposed to any single business sector.

Project update

With the improving operating conditions, our strategy, as outlined at the year-end, was to cautiously increase our project pipeline and to deliver space at a time of low supply. In the first half, we delivered projects totalling approximately 4,600m² (50,000 sq ft). Subsequently, we have completed 65 Whitfield Street on our Fitzrovia Estate. This 2,800m² (30,000 sq ft) five-storey office refurbishment is over 60% let. We are currently on-site with a number of other West End projects, principally in Fitzrovia, with floorspace of 10,200m² (110,000 sq ft). The capital expenditure on these projects is £15.7m. These include Victory House, Maple Place/Fitzroy Street and 9-10 Rathbone Place, which are due for completion between September 2010 and mid-2011.

As to major projects, we will shortly complete our 24,400m² (263,000 sq ft) six-storey Angel Building. Cancer Research UK has now finalised their pre-let requirements and will occupy 11,700m² (126,000 sq ft) at a rent of £5.0m pa. The charity's fit-out has commenced with occupation scheduled for October.

Regarding our future large projects, we are actively progressing our plans at Hampstead Road, Euston and will shortly be submitting a planning application for a mixed-use development of 24,600m² (265,000 sq ft). This will adopt our White Collar Factory concept - the intelligent provision of energy-efficient, user-friendly office space at a cost effective price - outlined in the 2009 annual report. A start date is anticipated for mid-2011. Elsewhere, we continue to work on the planning for a new-build scheme at Turnmill in Clerkenwell. Here, we have an existing consent for a 6,000m² (65,000 sq ft) refurbishment. However, after planning for a larger new development was refused earlier this year, we are redesigning a slightly smaller scheme which is comparable in size to our existing consent and a planning application is to be submitted later this year.

Acquisitions and disposals

With a portfolio that has extensive asset management and development potential, coupled with our disciplined buying approach, no significant acquisitions were made in the course of the economic downturn.

However, following the half-year, we made a major West End acquisition, Central Cross, 18-30 Tottenham Court Road, for £146.0m, before costs. With a rental income of £8.1m pa, this transaction reflects a net initial yield of 5.5%. The 23,300m² (251,000 sq ft) freehold office and retail property, which complements our nearby Oxford Street and Fitzrovia holdings, is situated on a 0.85 hectare (2.1 acre) site. This substantial property is an ideal Derwent London acquisition as it is let at low average rents (£365 per m² / £34 per sq ft) and offers significant scope for refurbishment and extension. We had been monitoring this asset as a potential opportunity for some time. The property is in a strategic location that is overdue for regeneration and offers considerable rental and capital growth prospects. It will benefit from both the nearby transport improvements at Tottenham Court Road station, including the addition of Crossrail, and the proposed revitalisation of the nearby eastern end of Oxford Street. Initial studies have identified significant opportunities to upgrade and extend the retail frontage and the office reception. In addition, we can drive the office rents upwards through asset management and refurbishment.

Results

The adjusted net asset value per share attributable to ordinary shareholders increased by 17% to 1,365p as at 30 June 2010 from 1,168p at the previous year end. The main contributor to the rise in net asset value was the £199.8m increase in value of the group's investment properties referred to earlier.

The underlying increase in investment property valuation in the first half of 2010 was 10.3% taking the total valuation to £2.15bn at 30 June 2010 from £1.92bn at 31 December 2009.

The adjusted recurring profit before tax, which excludes valuation movements of investment properties, derivatives and cash-settled share options, foreign exchange movements on an intercompany loan, exceptional rates credits and property disposals, was £25.6m for the half year to 30 June 2010 compared with £27.8m in the first half of 2009. Gross property income fell to £57.4m from £63.1m in 2009, reflecting an income loss of £6.7m from property sales made in 2009, and £2.4m on properties being refurbished or vacant. This was offset by increases in rent from new lettings and rent reviews of £3.4m. Net property income fell to £54.9m from £59.3m, the smaller reduction being due to further recoveries of business rates and lower professional fees than in 2009. Adjusted recurring earnings per share were 24.03p compared with 24.90p for the half year to 30 June 2009.

Net finance costs fell from £20.6m in the first half of 2009 to £18.8m in the first half of 2010 as a result of the lower borrowings during the period. Staff costs and overheads have, however, increased as the business prepares for future expansion.

The profit before tax, which includes the impact of fair value movements, was £216.4m compared with a loss of £223.3m in the first half of 2009, demonstrating the turnaround in outlook from the first half of 2009 to 2010.

With effect from 1 January 2010, the group has changed its method of presentation of loan arrangement costs and non-utilisation fees to align the treatment with standard practice. There is no impact upon the group's net asset value, adjusted recurring profit or the overall profit or loss before taxation as a result of these changes and the minor presentational impacts on the previously reported figures are shown in note 1.

Debt and cash flow

Following three years of net property disposals to the end of 2009, there were negligible property sales in the first half of 2010 and property acquisitions exceeded disposals by £1.0m. By contrast, in the first half of 2009, property sales exceeded acquisitions by £37.8m. However, capital expenditure on projects fell to £29.6m in the first six months of 2010 against £44.9m during the equivalent period of 2009 as a result of the action taken in 2008/9 to defer our development programme. Cash flow from operations also fell by £11.1m in the first half compared with 2009, due mainly to property sales in 2009 which reduced cash flow from net property receipts to £53.7m from £61.4m. Operating cash outflows on administration and taxation, net of property management fee and other income, increased by a total of £3.4m. After payment of the final dividend, the result was an increase in net debt to £749.2m at 30 June 2010 from £720.8m (£723.4m as previously stated) at the end of 2009.

The group's gearing ratios have reduced during the first six months of the year as the increased net asset value had a much more significant impact than the increase in net debt. The group loan-to-value ratio fell to 33.8% from 36.4% as at December 2009 and 44.3% at June 2009. Balance sheet gearing correspondingly reduced to 55.1% from 61.9% at December 2009 and 85.9% at the 2009 interim stage; the comparatives have been restated for the change in treatment of loan arrangement costs noted above.

As at 30 June 2010, the group held £409m of undrawn bank facilities of which £375m were immediately available. In addition to which, there was £370m of unencumbered property. The combined total of undrawn, available bank facilities and uncharged properties has therefore increased by £54m to £745m at 30 June 2010, from £691m at 31 December 2009. This total will not be affected by the acquisition of Central Cross but the level of undrawn facilities will fall from £409m to approximately £260m.

Despite signs of economic growth in the UK and the stubborn level of domestic inflation, the strength and sustainability of the country's economic recovery remains in doubt and post-election economic policy has been dominated by the announcement of fiscal tightening. As a result, base interest rates and short term LIBOR remain at or close to their recent lows. The market's anticipated increase in interest rates has been delayed and the forward curve has been getting less steep. The expectation of continued low interest rates for the time being means, however, that the theoretical cost of unwinding the group's interest rate hedging instruments increased by £10.9m during the period to £33.9m. The risk remains that rates do increase, particularly over the medium-term, and we have taken steps during the first half of the year to provide longer term interest rate protection by extending £40m of existing swaps out to June 2017, while also reducing slightly the existing fixed rates. As a result of this, and the higher proportion of floating rate debt at 30 June 2010, the weighted average cost of debt fell to 4.92% from 5.00% at 31 December 2009 and the weighted average cost of bank debt fell to 4.42% at the same date. There was no increase in the total amount of debt hedged; the proportion of debt subject to fixed rates, interest rate swaps or caps fell to 80.3% at 30 June 2010 from 82.1% at 31 December 2009 as the additional borrowings drawn are at floating rates.

The next loan facility due for refinancing expires in December 2011. Our relationships with both existing and potential future lenders remain strong and significant progress has been made towards arranging replacement facilities.

Responsibility statement

The directors confirm to the best of their knowledge:

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

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

The principal risks and uncertainties facing the business are discussed in note 22.

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

On behalf of the board
J. D. Burns
Chief executive officer
25 August 2010

D.M.A. Wisniewski
Finance director

GROUP CONDENSED INCOME STATEMENT (UNAUDITED)

	Note	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Gross property income		57.4	63.1	123.8
Other income		1.1	0.6	1.5
Total income	4	58.5	63.7	125.3
Property outgoings		(3.6)	(4.4)	(10.5)
Net property income		<u>54.9</u>	<u>59.3</u>	<u>114.8</u>
Administrative expenses *		(10.0)	(7.8)	(17.5)
Movement in valuation of cash-settled share options		0.5	(0.7)	(1.6)
Total administrative expenses		(9.5)	(8.5)	(19.1)
Revaluation surplus/(deficit)		199.8	(258.9)	(81.1)
Profit/(loss) on disposal of investment properties	5	-	(3.4)	(16.6)
Profit/(loss) from operations		<u>245.2</u>	<u>(211.5)</u>	<u>(2.0)</u>
Finance income		0.6	0.7	2.0
Foreign exchange gain		-	3.6	3.6
Total finance income	6	0.6	4.3	5.6
Finance costs *		(19.4)	(21.3)	(41.5)
Foreign exchange loss		(0.4)	-	-
Total finance costs	6	(19.8)	(21.3)	(41.5)
Movement in fair value of derivative financial instruments		(10.9)	7.0	3.9
Share of results of joint ventures	7	1.3	(1.8)	(0.9)
Profit/(loss) before tax		<u>216.4</u>	<u>(223.3)</u>	<u>(34.9)</u>
Tax (charge)/credit	8	(1.6)	12.1	9.4
Profit/(loss) for the period		<u>214.8</u>	<u>(211.2)</u>	<u>(25.5)</u>
Attributable to:				
- Equity shareholders		209.9	(207.8)	(26.8)
- Minority interest		4.9	(3.4)	1.3
		<u>214.8</u>	<u>(211.2)</u>	<u>(25.5)</u>
Profit/(loss) per share	9	<u>207.58p</u>	<u>(206.13)p</u>	<u>(26.59)p</u>
Diluted profit/(loss) per share	9	<u>206.22p</u>	<u>(206.13)p</u>	<u>(26.59)p</u>

* see note 1

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Profit/(loss) for the period	214.8	(211.2)	(25.5)
Actuarial losses on defined benefit pension scheme	(1.4)	(0.4)	(0.2)
Foreign currency translation	0.4	(3.6)	(3.6)
Other comprehensive expense	(1.0)	(4.0)	(3.8)
Total comprehensive income/(expense) relating to the period	213.8	(215.2)	(29.3)
Attributable to:			
- Equity shareholders	208.9	(211.8)	(30.6)
- Minority interest	4.9	(3.4)	1.3
	213.8	(215.2)	(29.3)

GROUP CONDENSED BALANCE SHEET (UNAUDITED)

	Note	30.06.2010 £m	30.06.2009 £m	31.12.2009 £m
Non-current assets				
Investment property	10	2,119.0	1,718.9	1,888.6
Property, plant and equipment	11	1.4	1.3	1.4
Investments		7.7	5.5	6.4
Pension scheme surplus		-	0.6	0.8
Other receivables	12	40.1	32.1	38.9
		2,168.2	1,758.4	1,936.1
Current assets				
Trading properties		1.0	7.5	1.0
Trade and other receivables *		33.4	30.0	44.0
Cash and cash equivalents		3.4	9.0	19.0
		37.8	46.5	64.0
Non-current assets held for sale	10	-	110.2	-
		37.8	156.7	64.0
Total assets		2,206.0	1,915.1	2,000.1
Current liabilities				
Bank overdraft	13	2.7	4.3	5.9
Trade and other payables		46.4	44.4	59.0
Corporation tax liability		3.4	2.6	5.4
Derivative financial instruments	13	0.6	-	1.6
Provisions		0.3	0.5	0.2
		53.4	51.8	72.1
Non-current liabilities				
Borrowings *	13	749.9	851.0	733.9
Derivative financial instruments	13	33.3	19.9	21.4
Provisions		1.3	1.6	2.9
Pension scheme deficit		0.4	-	-
Deferred tax liability	14	7.0	6.1	5.9
		791.9	878.6	764.1
Total liabilities		845.3	930.4	836.2
Total net assets		1,360.7	984.7	1,163.9
Equity				
Share capital		5.0	5.0	5.0
Share premium		158.0	156.2	156.9
Other reserves		917.2	921.2	916.8
Retained earnings		238.9	(129.7)	48.5
Equity shareholders' funds		1,319.1	952.7	1,127.2
Minority interest		41.6	32.0	36.7
Total equity		1,360.7	984.7	1,163.9

* see note 1

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders				Total £m	Minority interest £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m			
At 1 January 2010	5.0	156.9	916.8	48.5	1,127.2	36.7	1,163.9
Total comprehensive income for the period	-	-	0.4	208.5	208.9	4.9	213.8
Share-based payments expense transferred to reserves	-	-	1.0	-	1.0	-	1.0
Transfer between reserves in respect of share-based payments	-	-	(1.0)	1.0	-	-	-
Issue of shares	-	1.1	-	-	1.1	-	1.1
Dividends paid	-	-	-	(19.1)	(19.1)	-	(19.1)
At 30 June 2010	5.0	158.0	917.2	238.9	1,319.1	41.6	1,360.7

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

	Attributable to equity shareholders				Total £m	Minority interest £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m			
At 1 January 2009	5.0	156.2	923.4	95.0	1,179.6	35.4	1,215.0
Total comprehensive expense for the year	-	-	(3.6)	(27.0)	(30.6)	1.3	(29.3)
Share-based payments expense transferred to reserves	-	-	2.2	-	2.2	-	2.2
Transfer between reserves in respect of share-based payments	-	-	(5.2)	5.2	-	-	-
Premium on issue of shares	-	0.7	-	-	0.7	-	0.7
Dividends paid	-	-	-	(24.7)	(24.7)	-	(24.7)
At 31 December 2009	5.0	156.9	916.8	48.5	1,127.2	36.7	1,163.9

GROUP CONDENSED CASH FLOW STATEMENT (UNAUDITED)

	Note	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Operating activities				
Cash received from tenants		59.0	67.3	125.4
Direct property expenses		(5.3)	(5.9)	(10.2)
Cash paid to and on behalf of employees		(7.3)	(5.5)	(11.4)
Other administrative expenses		(4.1)	(4.0)	(5.7)
Interest received		0.1	0.5	1.6
Interest paid		(20.7)	(21.1)	(40.7)
Other income		0.6	0.3	1.0
Disposal of trading property		-	-	6.5
Tax paid in respect of operating activities		(2.8)	(1.0)	(0.1)
Net cash from operating activities		19.5	30.6	66.4
Investing activities				
Acquisition of investment properties		(1.3)	(1.5)	(10.2)
Capital expenditure on investment properties		(29.6)	(44.9)	(94.6)
Disposal of investment properties		0.3	39.3	195.5
Purchase of property, plant and equipment		(0.1)	(0.2)	(0.4)
Distributions received from joint ventures		-	0.1	0.5
Advances to minority interest holder		(1.0)	-	-
Tax received in respect of investing activities		-	8.1	6.6
Net cash (used in)/from investing activities		(31.7)	0.9	97.4
Financing activities				
Net movement in revolving bank loans		16.0	(18.0)	(134.0)
Drawdown of non-revolving bank loans		-	0.5	1.9
Repayment of loan notes		-	(0.5)	(1.9)
Net proceeds of share issues		1.1	-	0.7
Dividends paid		(17.3)	(15.7)	(24.3)
Net cash used in financing activities		(0.2)	(33.7)	(157.6)
(Decrease)/increase in cash and cash equivalents in the period		(12.4)	(2.2)	6.2
Cash and cash equivalents at the beginning of the period		13.1	6.9	6.9
Cash and cash equivalents at the end of the period	20	0.7	4.7	13.1

NOTES TO THE FINANCIAL STATEMENTS

1. The comparative financial information presented herein for the year ended 31 December 2009 does not constitute full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The group's annual report and accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies. The group's independent auditor's report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006. The financial information for the half years ended 30 June 2010 and 30 June 2009 have neither been subject to an audit nor a review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board.

The financial information in these condensed financial statements is that of the holding company and all of its subsidiaries (the "group") together with the group's share of its joint ventures. It has been prepared in accordance with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual report and accounts for the year ended 31 December 2009 which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The accounting policies applied by the group in these condensed financial statements are the same as those applied by the group in its financial statements for the year ended 31 December 2009 with the exception of the new standards adopted during 2010 and the presentational changes outlined below and which will form the basis of the 2010 financial statements.

With effect from 1 January 2010, non-utilisation fees payable on the undrawn part of the revolving credit facilities and the amortisation of the loan arrangement costs have been reclassified into finance costs from administrative expenses. In addition, the prepayment of the loan arrangement costs, which was previously included within trade and other receivables, has now been included as a deduction against borrowings in accordance with IAS 39, Financial Instruments: Recognition and Measurement. There is no impact on adjusted recurring profit, profit before tax or net assets as a result of these changes and they do not materially affect the results for the half year to 30 June 2010 or either of the comparative periods. Both trade and other receivables and borrowings have reduced by £3.0m at 30 June 2009 and by £2.6m at 31 December 2009 from those figures previously reported. In addition, administrative expenses reduced by £1.3m for the period to 30 June 2009 and £2.5m for the year to 31 December 2009 with a corresponding increase in total finance costs over the same periods.

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

IAS 24 Related Party Disclosures (revised)
IAS 32 Financial Instruments: Presentation (amendment)
IFRS 9 Financial Instruments
IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The adoption of new standards, amendments and interpretations issued but not effective, are not anticipated to have a material impact on the financial statements.

During 2010, the following accounting standards and guidance were adopted by the group:

IAS 1 Presentation of Financial Statements (amendment)
IAS 27 Consolidated and Separate Financial Statements (revised)
IAS 39 Financial Instruments: Recognition and Measurement; Eligible Hedged Items
IFRS 2 Share-based Payment (revised)
IFRS 3 Business Combinations (revised)
IFRIC 17 Distribution of Non-cash Assets to Owners

These pronouncements either had no impact on the condensed consolidated financial statements or resulted in changes to presentation and disclosure only.

2. Significant judgments, key assumptions and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements. These are the same policies identified at the previous year end and a full discussion of these policies is included in the 2009 financial statements.

- Trading properties
- Trade receivables
- Investment property valuation
- Outstanding rent reviews

- Compliance with the real estate investment trust (REIT) taxation regime
- Exceptional items
- Estimated compulsory purchase proceeds

3. Segmental reporting

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

The internal financial reports received by the group's executive board contain financial information at a group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for adjusted recurring earnings per share, adjusted net asset value and adjusted recurring profit. Reconciliations of each of these figures to their statutory equivalents are detailed in notes 9, 16 and 18, respectively. 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 investment property portfolio comprises 91% offices* by value. The directors consider that these properties have similar types of tenants; they demonstrate similar long-term financial performance and have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 9% 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, 'offices' and 'other', by reference to gross property income and investment property value.

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

Investment property (see note 10)

	Carrying value		
	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
Offices	1,923.1	1,659.1	1,709.3
Other	195.9	170.0	179.3
	2,119.0	1,829.1	1,888.6
	Fair value		
	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
Offices	1,951.9	1,682.9	1,736.4
Other	198.3	172.7	182.0
	2,150.2	1,855.6	1,918.4
Gross property income			
	Half year to	Half year to	Year to
	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
Offices	52.6	58.1	114.3
Other	4.8	5.0	9.5
	57.4	63.1	123.8

All of the group's investment properties are based in the UK. The group also owns a joint venture in Prague which represents 0.2% of the group's assets. No geographical grouping is contained in any of the internal financial reports provided to the group's executive board and, 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 discussed in the business review.

Investment property

	Carrying value		
	30.06.2010 £m	30.06.2009 £m	31.12.2009 £m
West End central	1,446.6	1,240.3	1,284.8
West End borders	153.1	101.5	121.4
City borders	419.9	361.8	392.5
Provincial	99.4	125.5	89.9
	2,119.0	1,829.1	1,888.6
	Fair value		
	30.06.2010 £m	30.06.2009 £m	31.12.2009 £m
West End central	1,462.3	1,250.9	1,299.1
West End borders	153.6	101.8	121.7
City borders	432.8	374.6	405.5
Provincial	101.5	128.3	92.1
	2,150.2	1,855.6	1,918.4

Gross property income

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
West End central	37.3	40.1	78.4
West End borders	3.1	3.9	7.9
City borders	14.4	14.7	29.2
Provincial	2.6	4.4	8.3
	57.4	63.1	123.8

4. Total income

Gross property income includes surrender premiums received from tenants during the half year to 30 June 2010 of £0.3m (half year to 30 June 2009: £nil; year to 31 December 2009: £0.1m). The balance of £57.1m (half year to 30 June 2009: £63.1m; year to 31 December 2009: £123.7m) is derived solely from rental income from the group's properties. Of these amounts, £1.0m (half year to 30 June 2009: £2.1m; year to 31 December 2009: £4.2m) was derived from a lease to BT of the Angel Building, EC1, where in March 2007, the group entered into an arrangement with BT to restructure the lease arrangements such that the group could obtain possession of the building whilst maintaining rental income from BT until March 2010. 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).

Other income of £1.1m (half year to 30 June 2009: £0.6m; year to 31 December 2009: £1.5m) relates to fees and commissions earned in relation to the management of the group's properties.

5. Profit/(loss) on disposal of investment properties

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Disposal proceeds	0.2	39.1	201.8
Carrying value	(0.2)	(41.4)	(216.0)
Adjustment for rents recognised in advance	-	(1.1)	(2.4)
	<u>-</u>	<u>(3.4)</u>	<u>(16.6)</u>

6. Finance income and costs

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Finance income			
Interest on development funding	-	0.2	0.9
Return on pension plan assets	0.4	0.1	0.6
Bank interest received	-	-	0.1
Other	0.2	0.4	0.4
	<u>0.6</u>	<u>0.7</u>	<u>2.0</u>
Foreign exchange gain	-	3.6	3.6
Total finance income	<u>0.6</u>	<u>4.3</u>	<u>5.6</u>
Finance costs			
Bank loans and overdraft wholly repayable within five years	10.4	13.7	23.7
Bank loans not wholly repayable within five years	1.8	0.3	3.4
Non-utilisation fees	0.9	0.5	1.2
Amortisation of loan arrangement costs *	0.4	0.4	0.8
Loan notes	-	-	0.1
Secured bonds	5.7	5.7	11.4
Amortisation of the fair value and issue costs of the secured bonds	(0.3)	(0.3)	(0.7)
Finance lease costs	0.2	0.3	0.6
Pension interest costs	0.3	0.1	0.5
Other *	-	0.6	0.5
	<u>19.4</u>	<u>21.3</u>	<u>41.5</u>
Foreign exchange loss	0.4	-	-
Total finance costs	<u>19.8</u>	<u>21.3</u>	<u>41.5</u>

* The comparative figures for 30 June 2009 and 31 December 2009 have been restated for the presentational changes outlined in note 1.

7. Share of results of joint ventures

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Revaluation surplus/(deficit)	0.7	(1.3)	(1.3)
Other profit/(loss) from operations after tax	0.6	(0.5)	0.4
	<u>1.3</u>	<u>(1.8)</u>	<u>(0.9)</u>

8. Tax (charge)/credit

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Corporation tax (charge)/credit			
UK corporation tax and income tax on profit/(loss) for the period	(0.5)	(0.6)	(2.6)
Utilisation of losses from prior years	-	11.6	11.1
Other	-	-	(0.4)
	<u>(0.5)</u>	<u>11.0</u>	<u>8.1</u>
Deferred tax credit			
Origination and reversal of temporary differences	(1.1)	1.1	1.7
Adjustment for changes in estimates	-	-	(0.4)
	<u>(1.1)</u>	<u>1.1</u>	<u>1.3</u>
	<u>(1.6)</u>	<u>12.1</u>	<u>9.4</u>

No tax losses from prior years were utilised during the half year to 30 June 2010. Within the utilisation of tax losses from prior years of £11.6m for the half year to 30 June 2009 and £11.1m for the year to 31 December 2009 is £11.9m of losses which were not recognised in prior years due to the uncertainty of their availability.

The tax charge is lower (half year to 30 June 2009: credit is lower; year to 31 December 2009: credit is lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Profit/(loss) before tax	<u>216.4</u>	<u>(223.3)</u>	<u>(34.9)</u>
Expected tax (charge)/credit based on the standard rate of corporation tax in the UK of 28%	(60.6)	62.5	9.8
Difference between tax and accounting profit on disposals	-	(0.9)	(8.5)
REIT exempt income	4.2	4.6	8.2
Expenses and fair value adjustments not (allowable)/deductible for tax purposes	(1.5)	2.3	4.0
Revaluation surplus/(deficit) attributable to REIT properties	54.7	(71.0)	(19.7)
Capital allowances	1.6	2.0	4.6
Other	-	1.0	(0.1)
Tax (charge)/credit on current period's profit/(loss)	<u>(1.6)</u>	<u>0.5</u>	<u>(1.7)</u>
Adjustments in respect of prior years' tax	-	11.6	11.1
	<u>(1.6)</u>	<u>12.1</u>	<u>9.4</u>

9. Earnings/(loss) per share

Number of shares

	Half year to 30.06.2010 '000	Half year to 30.06.2009 '000	Year to 31.12.2009 '000
Weighted average number of shares in issue for use in undiluted calculations	101,118	100,811	100,802
Dilutive effect of share-based payments	666	629	597
Weighted average number of shares in issue for use in diluted calculations	<u>101,784</u>	<u>101,440</u>	<u>101,399</u>

Earnings

	Profit/(loss) for the period £m	Earnings/(loss) per share p	Diluted earnings/(loss) per share p
Half year ended 30 June 2010	209.9	207.58	206.22
Adjustment for:			
Group revaluation surplus	(199.8)	(197.59)	(196.30)
Deferred tax on group revaluation surplus	1.2	1.19	1.18
Joint venture revaluation surplus	(0.7)	(0.69)	(0.69)
Fair value movement in derivative financial instruments	10.9	10.78	10.71
Minority interests in respect of the above	4.0	3.95	3.93
Recurring and EPRA	25.5	25.22	25.05
Adjustments for:			
Foreign exchange loss	0.4	0.40	0.39
Rates credit	(1.1)	(1.09)	(1.08)
Movement in valuation of cash-settled share options	(0.5)	(0.50)	(0.49)
Adjusted recurring	24.3	24.03	23.87
Half year ended 30 June 2009	(207.8)	(206.13)	(206.13)
Dilution *	-	-	1.28
Adjustment for:			
Disposal of properties	(8.2)	(8.14)	(8.08)
Group revaluation deficit	258.9	256.82	255.22
Deferred tax on group revaluation deficit	(1.4)	(1.39)	(1.38)
Joint venture revaluation deficit	1.3	1.29	1.28
Fair value movement in derivative financial instruments	(7.0)	(6.94)	(6.90)
Minority interests in respect of the above	(5.2)	(5.16)	(5.12)
Recurring and EPRA	30.6	30.35	30.17
Adjustments for:			
Foreign exchange gain	(3.6)	(3.57)	(3.55)
Rates credit	(2.6)	(2.58)	(2.56)
Movement in valuation of cash-settled share options	0.7	0.70	0.68
Adjusted recurring	25.1	24.90	24.74
Year ended 31 December 2009	(26.8)	(26.59)	(26.59)
Dilution *	-	-	0.16
Adjustment for:			
Disposal of properties	16.6	16.47	16.37
Group revaluation deficit	81.1	80.45	79.98
Deferred tax on group revaluation deficit	(0.8)	(0.79)	(0.79)
Joint venture revaluation deficit	1.3	1.29	1.28
Fair value movement in derivative financial instruments	(3.9)	(3.87)	(3.85)
Prior year tax relating to capital items	(11.1)	(11.01)	(10.95)
Minority interests in respect of the above	(0.4)	(0.40)	(0.38)
Recurring and EPRA	56.0	55.55	55.23
Adjustments for:			
Foreign exchange gain	(3.6)	(3.57)	(3.55)
Rates credit	(2.8)	(2.78)	(2.76)
Movement in valuation of cash-settled share options	1.6	1.59	1.57
Adjusted recurring	51.2	50.79	50.49

* The loss per share at both 30 June 2009 and 31 December 2009 could not be reduced by dilution in accordance with IAS 33, Earnings per Share. Therefore, these dilution figures are included for the purposes of calculating the diluted recurring, EPRA and adjusted recurring earnings per share figures.

10. Investment property

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1 January 2010	1,537.8	350.8	1,888.6
Acquisitions	1.2	-	1.2
Capital expenditure	26.2	3.4	29.6
Additions	27.4	3.4	30.8
Disposals	-	(0.2)	(0.2)
Revaluation	162.4	37.4	199.8
At 30 June 2010	1,727.6	391.4	2,119.0
At 1 January 2009	1,722.5	363.1	2,085.6
Acquisitions	-	1.5	1.5
Capital expenditure	36.1	6.2	42.3
Additions	36.1	7.7	43.8
Disposals	(41.4)	-	(41.4)
Revaluation	(208.4)	(50.5)	(258.9)
At 30 June 2009	1,508.8	320.3	1,829.1
Disclosed in:			
Investment property	1,400.7	318.2	1,718.9
Non-current assets held for sale	108.1	2.1	110.2
	1,508.8	320.3	1,829.1
At 1 January 2009	1,722.5	363.1	2,085.6
Acquisitions	-	9.8	9.8
Capital expenditure	80.2	11.3	91.5
Additions	80.2	21.1	101.3
Disposals	(207.9)	(8.1)	(216.0)
Revaluation	(57.0)	(24.1)	(81.1)
Movement in grossing up of headlease liabilities	-	(1.2)	(1.2)
At 31 December 2009	1,537.8	350.8	1,888.6
Adjustments from fair value to carrying value			
At 30 June 2010			
Fair value	1,763.8	386.4	2,150.2
Adjustment for rents recognised in advance	(36.2)	(2.4)	(38.6)
Adjustment for grossing up of headlease liabilities	-	7.4	7.4
Carrying value	1,727.6	391.4	2,119.0
At 30 June 2009			
Fair value	1,542.4	313.2	1,855.6
Adjustment for rents recognised in advance	(33.6)	(1.5)	(35.1)
Adjustment for grossing up of headlease liabilities	-	8.6	8.6
Carrying value	1,508.8	320.3	1,829.1

At 31 December 2009			
Fair value	1,573.3	345.1	1,918.4
Adjustment for rents recognised in advance	(35.5)	(1.7)	(37.2)
Adjustment for grossing up of headlease liabilities	-	7.4	7.4
Carrying value	<u>1,537.8</u>	<u>350.8</u>	<u>1,888.6</u>

The investment properties were revalued at 30 June 2010 by external valuers, on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued the properties to a value of £2,121.3m (30 June 2009: £1,827.1m; 31 December 2009: £1,889.9m); other valuers £28.9m (30 June 2009: £28.5m; 31 December 2009: £28.5m).

At 30 June 2010, the historical cost of investment property owned by the group was £1,925.4m (30 June 2009: £2,041.6m; 31 December 2009: £1,894.8m).

11. Property, plant and equipment

	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
At beginning of period	1.4	1.2	1.2
Additions	0.1	0.2	0.4
Depreciation	(0.1)	(0.1)	(0.2)
At end of period	<u>1.4</u>	<u>1.3</u>	<u>1.4</u>
Net book value			
Cost or valuation	3.4	3.2	3.4
Accumulated depreciation	(2.0)	(1.9)	(2.0)
	<u>1.4</u>	<u>1.3</u>	<u>1.4</u>

12. Other receivables

	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
Accrued income	35.8	32.1	34.2
Other	4.3	-	4.7
	<u>40.1</u>	<u>32.1</u>	<u>38.9</u>

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods or capital contributions in lieu of rent free periods over the term of their respective leases. At 30 June 2010, the total rents recognised in advance were £38.6m (30 June 2009: £35.1m; 31 December 2009: £37.2m), with £2.8m of this amount (30 June 2009: £3.0m; 31 December 2009: £3.0m) included within trade and other receivables.

13. Borrowings and derivatives financial instruments

	30.06.2010 £m	30.06.2009 £m	31.12.2009 £m
Current liabilities			
Bank overdraft	2.7	4.3	5.9
	<u>2.7</u>	<u>4.3</u>	<u>5.9</u>
Non-current liabilities			
6.5% Secured Bonds 2026	193.2	194.0	193.6
Loan notes	1.4	2.7	1.4
Bank loans	519.0	619.0	503.0
Unsecured loans	31.1	29.7	31.1
Leasehold liabilities	7.4	8.6	7.4
Unamortised loan arrangement costs *	(2.2)	(3.0)	(2.6)
	<u>749.9</u>	<u>851.0</u>	<u>733.9</u>
Derivative financial instruments - expiring in less than one year	0.6	-	1.6
Derivative financial instruments - expiring in greater than one year	33.3	19.9	21.4
	<u>33.9</u>	<u>19.9</u>	<u>23.0</u>
Total	<u>786.5</u>	<u>875.2</u>	<u>762.8</u>
Reconciliation to net debt:			
Total borrowings and derivative financial instruments	786.5	875.2	762.8
Less:			
Derivative financial instruments	(33.9)	(19.9)	(23.0)
Cash and cash equivalents	(3.4)	(9.0)	(19.0)
Net debt	<u>749.2</u>	<u>846.3</u>	<u>720.8</u>

* The comparative figures for 30 June 2009 and 31 December 2009 have been restated for the presentational changes outlined in note 1.

14. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2010	8.1	(2.2)	5.9
Provided during the period in the group income statement	1.2	0.4	1.6
Released during the period in the group income statement	-	(0.5)	(0.5)
At 30 June 2010	<u>9.3</u>	<u>(2.3)</u>	<u>7.0</u>
At 1 January 2009	8.9	(1.7)	7.2
Provided during the period in the group income statement	-	1.4	1.4
Released during the period in the group income statement	(1.4)	(1.1)	(2.5)
At 30 June 2009	<u>7.5</u>	<u>(1.4)</u>	<u>6.1</u>

At 1 January 2009	8.9	(1.7)	7.2
Provided during the period in the group income statement	-	1.0	1.0
Released during the period in the group income statement	(0.8)	(1.5)	(2.3)
At 31 December 2009	<u>8.1</u>	<u>(2.2)</u>	<u>5.9</u>

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.

15. Dividend

The results for the half year to 30 June 2010 do not include the dividend declared after the end of the accounting period. In respect of these results, a dividend of 8.75p per share (2009 interim: 8.15p; 2009 final: 18.85p) will be paid on 5 November 2010 to those shareholders on the register at the close of business on 1 October 2010.

16. Net asset value per share

	Net assets £m	Deferred tax on revaluation surplus £m	Fair value of derivative financial instruments £m	Fair value adjustment to secured bonds £m	Adjusted net assets £m
At 30 June 2010	1,360.7	9.3	33.9	19.8	1,423.7
Minority interests	(41.6)	(0.5)	(0.5)	-	(42.6)
Attributable to equity shareholders	<u>1,319.1</u>	<u>8.8</u>	<u>33.4</u>	<u>19.8</u>	<u>1,381.1</u>
Net asset value per share attributable to equity shareholders (p)	1,304	8	33	20	1,365
At 30 June 2009	984.7	7.5	19.9	20.5	1,032.6
Minority interests	(32.0)	(0.2)	0.5	-	(31.7)
Attributable to equity shareholders	<u>952.7</u>	<u>7.3</u>	<u>20.4</u>	<u>20.5</u>	<u>1,000.9</u>
Net asset value per share attributable to equity shareholders (p)	<u>945</u>	<u>8</u>	<u>20</u>	<u>20</u>	<u>993</u>
At 31 December 2009	1,163.9	8.1	23.0	20.2	1,215.2
Minority interests	(36.7)	(0.3)	0.4	-	(36.6)
Attributable to equity shareholders	<u>1,127.2</u>	<u>7.8</u>	<u>23.4</u>	<u>20.2</u>	<u>1,178.6</u>
Net asset value per share attributable to equity shareholders (p)	<u>1,117</u>	<u>8</u>	<u>23</u>	<u>20</u>	<u>1,168</u>

The number of shares at 30 June 2010 was 101,180,797 (30 June 2009: 100,815,896; 31 December 2009: 100,950,263).

Reconciliation to EPRA figures:

	30.06.2010	30.06.2009	31.12.2009
	p	p	p
Net asset value per share attributable to equity shareholders	1,365	993	1,168
Deduct: fair value adjustment to secured bonds	(20)	(21)	(20)
	<u>1,345</u>	<u>972</u>	<u>1,148</u>
Adjustment for dilutive share-based payments	(8)	(6)	(7)
Diluted EPRA net asset value per share	<u>1,337</u>	<u>966</u>	<u>1,141</u>

17. Gearing ratios**Balance sheet gearing**

	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
Total net borrowings and derivatives *	786.5	875.2	762.8
Less: derivative financial instruments	(33.9)	(19.9)	(23.0)
	<u>752.6</u>	<u>855.3</u>	<u>739.8</u>
Less: cash and cash equivalents	(3.4)	(9.0)	(19.0)
Net debt *	<u>749.2</u>	<u>846.3</u>	<u>720.8</u>
Net assets	<u>1,360.7</u>	<u>984.7</u>	<u>1,163.9</u>
Balance sheet gearing	<u>55.1%</u>	<u>85.9%</u>	<u>61.9%</u>

Loan-to-value ratio

	30.06.2010	30.06.2009	31.12.2009
	£m	£m	£m
Net debt *	749.2	846.3	720.8
Loan arrangement costs and fair value adjustment to secured bonds	(16.0)	(16.0)	(16.0)
Leasehold liabilities	(7.4)	(8.6)	(7.4)
	<u>725.8</u>	<u>821.7</u>	<u>697.4</u>
Drawn facilities	<u>725.8</u>	<u>821.7</u>	<u>697.4</u>
Fair value of investment property	<u>2,150.2</u>	<u>1,855.6</u>	<u>1,918.4</u>
Loan-to-value ratio	<u>33.8%</u>	<u>44.3%</u>	<u>36.4%</u>

Interest cover ratio

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Gross property income	57.4	63.1	123.8
Surrender premiums	(0.3)	-	(0.1)
Ground rent	(0.4)	(0.6)	(1.3)
Net rental income	<u>56.7</u>	<u>62.5</u>	<u>122.4</u>
Net finance costs	19.2	17.0	35.9
Foreign exchange (loss)/gain	(0.4)	3.6	3.6
Net pension return	0.1	-	0.1
Finance lease costs	(0.2)	(0.3)	(0.6)
Amortisation of fair value adjustment to secured bonds and loan arrangement costs *	(0.1)	(0.5)	(0.7)
Non-utilisation fees *	(0.9)	(0.5)	(1.2)
Net interest payable	<u>17.7</u>	<u>19.3</u>	<u>37.1</u>
Interest cover ratio	<u>320%</u>	<u>324%</u>	<u>330%</u>

* The comparative figures for 30 June 2009 and 31 December 2009 have been restated for the presentational changes outlined in note 1.

18. Recurring and adjusted recurring profit before tax

	Half year to 30.06.2010 £m	Half year to 30.06.2009 £m	Year to 31.12.2009 £m
Profit/(loss) before tax	216.4	(223.3)	(34.9)
Adjustment for:			
Profit/(loss) on disposal of properties	-	3.4	16.6
Group revaluation (surplus)/deficit	(199.8)	258.9	81.1
Joint venture revaluation (surplus)/deficit	(0.7)	1.3	1.3
Movement in fair value of derivative financial instruments	10.9	(7.0)	(3.9)
Recurring profit before tax	<u>26.8</u>	<u>33.3</u>	<u>60.2</u>
Adjustment for:			
Foreign exchange loss/(gain)	0.4	(3.6)	(3.6)
Rates credit	(1.1)	(2.6)	(2.8)
Movement in valuation of cash-settled share options	(0.5)	0.7	1.6
Adjusted recurring profit before tax	<u>25.6</u>	<u>27.8</u>	<u>55.4</u>

19. Total return

	30.06.2010 %	30.06.2009 %	31.12.2009 %
Total return	<u>18.4</u>	<u>(17.7)</u>	<u>(2.7)</u>

20. Cash and cash equivalents

	30.06.2010 £m	30.06.2009 £m	31.12.2009 £m
Bank overdraft	(2.7)	(4.3)	(5.9)
Short-term deposits	3.4	9.0	19.0
	<u>0.7</u>	<u>4.7</u>	<u>13.1</u>

21. Post balance sheet events

On 10 August 2010, the group completed the acquisition of Central Cross, a property on Tottenham Court Road, London W1 for £146.0m, before costs.

22. Risk management and internal control

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

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

The register is then reviewed and commented upon by the audit committee before being considered and adopted by the full board. The register was reviewed in February 2010 and the principal risks and uncertainties that the group faces in 2010, 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.

- The group's strategy is inconsistent with the market environment.
- The group's development programme is not consistent with the economic cycle.

The group carries out a five-year strategic review and prepares regular rolling forecasts covering the next two years. In both exercises, the board considers the effect on key ratios of changing the main underlying assumptions and set these so as to best realise its long-term strategic goals. This flexibility arises from the policy of maintaining income from properties until development starts.

Financial risks

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

- 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 balance sheet gearing. Treasury control schedules are updated weekly whilst the rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken. The group has a considerable amount of uncharged property that could be used in such circumstances.

- 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 sources of finance to be identified and evaluated and, to a degree, the finance to be raised when market conditions are favourable.

- 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 incurs tax penalties or loses its REIT status due to failing to comply with the REIT legislation.

The group's rolling forecast monitors compliance over the forecast period which enables any potential non-compliance to be identified and corrective action to be taken at an early stage.

Operational risks

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

- The implementation of the group's strategy is inhibited by an inability to acquire assets at an attractive price.

The size of the central London market in which the group operates, means that such a situation is unlikely to persist for very long. During this time, the group is able to develop opportunities from within its existing portfolio.

- 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.

- The group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt.

Prospective tenants are considered by the group's credit committee and security is taken where appropriate. The group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.

- The financial return of the group's developments is reduced due to the insolvency of a contractor or sub-contractor.

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

- The group's reputation is damaged due to a breach of health and safety regulations.

The group employs a health and safety executive who establishes appropriate policies for the group's offices and an external health and safety supervisor is appointed for each development project. All significant accidents are reported to the board and reports for each scheme are submitted regularly to the board.

- 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 regularly benchmarked. Six-monthly appraisals identify training requirements which are fulfilled over the next year.

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 bonds, interest rate swaps and 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 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 alternatively 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 group does not enter into derivatives to manage credit risk.

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

Market risk

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

Fair value and cash flow interest rate risk

The group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently group policy that between 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. During both 2010 and 2009, 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 UK banks so as to minimise any potential concentration of risk. The liquidity risk of the group is managed centrally by the finance department.

Capital disclosures

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

The group's objectives when maintaining capital are:

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

The group sets the amount of capital it requires in proportion to risk. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the group monitors capital on the basis of balance sheet gearing and the loan-to-value ratio. During 2010, the group's

strategy, which was unchanged from 2009, 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 17.

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

List of definitions

Net assets per share or net asset value (NAV)

Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Adjusted net asset value per share

NAV adjusted to exclude deferred tax on the property revaluation surplus and fair value adjustments to the carrying value of assets and liabilities, on the basis that these amounts are not relevant when considering the group as an ongoing business.

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors.

Recurring profit before taxation

Profit before tax excluding the revaluation movement in investment properties and financial instruments and the profit or loss on disposal of investment properties.

Adjusted recurring profit before taxation

Recurring profit before tax adjusted for items which are excluded to show the underlying trend. In the current period recurring profit before tax has been adjusted for rates credits, valuation of cash-settled share options and the foreign exchange movement.

Earnings per share (EPS)

Profit for the year attributable to equity shareholders divided by the weighted average number of ordinary shares in issue during the financial year.

Recurring earnings per share

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

Adjusted recurring earnings per share

Recurring earnings per share adjusted for items which are excluded to show the underlying trend. In the current period recurring earnings per share has been adjusted for rates credits, valuation of cash-settled share options and the foreign exchange movement.

Diluted earnings per share

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

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. This is similar to that used in the group's bank covenants.

Property gearing/Loan-to-value ratio (LTV)

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

Ground rent

The rent payable by the group 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.

IPD Central London Offices Index

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

Capital return

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

Total return

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

Total property return

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

Total shareholder return

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

Rent roll

The annualised contracted rental income, net of ground rents.

Initial yield

The rent roll generated by a property or by the portfolio as a whole expressed as a percentage of its valuation. Where applicable, the valuation is adjusted to include any capital expenditure required for scheme completion.

True equivalent yield

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

Reversionary yield

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

Reversion

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

Underlying portfolio

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

Vacancy rate

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