

Derwent London plc
Interim Report
2008



| | Half year to 30.06.08 | Half year to 30.06.07 Restated | Year to 31.12.07 | Increase/ (decrease) % ¹ |
|--|--------------------------|--------------------------------------|---------------------|--|
| Recurring net property income ² | £41.1m | £46.1m | £101.8m | (10.8) |
| Recurring profit before tax ³ | £9.0m | £12.3m | £38.0m | (26.8) |
| Loss before tax | £(144.7)m | £(76.3)m | £(99.8)m | (89.6) |
| Recurring earnings per share ⁴ | 9.73p | 8.67p | 35.14p | 12.2 |
| (Loss)/earnings per share | (138.42)p | 158.44p | 100.55p | n/a |
| Dividend per share | | | | |
| Distribution of periods' earnings | 8.15p | 7.50p | 22.50p | 8.7 |
| IFRS | 15.00p | 10.525p | 18.025p | 42.5 |
| Adjusted net asset value per share attributable | | | | |
| to equity shareholders ⁵ | 1,637p | 1,874p | 1,801p | (9.1) |
| Adjusted net asset value per share ⁵ | 1,693p | 1,931p | 1,862p | (9.1) |
| Net asset value per share attributable | | | | |
| to equity shareholders | 1,614p | 1,865p | 1,770p | (8.8) |
| Total return attributable to equity shareholders | (8.3)% | 6.5% | 2.8% | |
| Gearing | | | | |
| Balance sheet | 50.3% | 49.1% | 42.5% | |
| Profit and loss | 1.43 | 1.50 | 1.81 | |

1 The percentage change is from half year to half year, other than net asset value per share for which June 2008 is compared to December 2007.

2 Excludes development income.

3 Excludes development income, exceptional items, goodwill impairment, the revaluation movement on investment properties and financial instruments and the profit on disposal of properties and investments.

4 As 3, together with the related tax effects and is stated after deduction for the minority interest.

5 Excludes the deferred tax on the revaluation surplus, the post tax fair value of derivative financial instruments and the fair value adjustment to the secured bond.

Chairman's statement

Overview

Since the start of the year, the group has successfully let 26,700 sq m (287,000 sq ft) of space. This will generate rental income of £11 million per annum which represents approximately 9% of the group's current passing rent. Overall, these lettings have been achieved above the rental levels in the December 2007 valuation. This is a powerful endorsement of our brand of design-led, competitively priced offices, focussed on the central London mid-price rental office market.

However, these lettings have run in parallel with a further increase in investment yields. The adverse effect of this on the portfolio valuation has been cushioned, to some extent, by the reversionary profile of the portfolio and its future development potential. Consequently, the half year valuation of the investment portfolio showed an underlying decrease of 6.1%.

The group has also been successful in progressing the next generation of development projects by obtaining three valuable planning consents for properties totalling up to 63,300 sq m (680,000 sq ft).

Results

Adjusted net asset value per share was £16.37, a reduction of 9.1% (£1.64) from the figure at 31st December 2007 of £18.01 per share.

The investment portfolio was valued at £2.5 billion, a decrease in value of £161.9 million, before the lease incentive adjustment of £1.9 million. The underlying valuation decrease, excluding development properties, was £159.5 million. The development properties, valued at £137.7 million, showed a reduction in value of £1.7 million and the balance of the deficit, £0.7 million, came from acquisitions made in the first half.

Central London properties (94% of the investment portfolio) fell in value by 5.8%. This compares favourably with the decrease shown by the IPD quarterly index of 8.2% for central London offices over the same period. The remainder, which comprises non-core properties located outside central London, fell in value by 9.3%. Within the central London portfolio, the West End properties, valued at £1.85 billion and representing 74% of the investment portfolio, decreased by 5.3% with the balance, located in the borders of the City, decreasing by 7.8%.

The recurring profit before tax, before the reverse surrender premium of £8.3 million paid at 1-3 Grosvenor Place, Belgravia, was £17.3 million. Including the premium, the recurring profit was £9.0 million. In considering the detail behind this result, it should be noted that gross property income (rent receivable) rose 13.9% which reflects our ongoing letting and asset management achievements. While property outgoings also rose, due to a combination of increases in development void costs and transaction costs associated with lettings and rent reviews, administrative expenses were lower than the equivalent period last year. Although values declined during the period, the group showed a profit on first half disposals of £2.1 million. However, due to the revaluation deficit of £163.8 million, the group reported a loss before tax of £144.7 million.

Dividend

The board has declared a dividend of 8.15p per share, an increase of 8.7% on the 7.5p paid at the interim stage last year. Following conversion to a real estate investment trust last year, 5.0p of the dividend will be paid as a property income dividend. Further information on the dividend can be found in note 19 of the results.

Market and activity update

The lack of generally available finance has restricted activity in the investment market and has resulted in an increase in investment yields with no apparent immediate prospects for improvement until liquidity returns to the financial markets. With these conditions, acquisition opportunities remain scarce. Nevertheless, in the first six months we added £16 million of strategically located properties to the portfolio, mainly on our Fitzrovia Estate. Since the half year, a property has been acquired in Victoria for £11 million plus costs. Disposals of non-core properties continued, albeit at a slower pace, with £56 million of sales in the first half.

Meanwhile, the West End letting market has remained relatively robust. Vacancy levels are low at below 4% and demand is still active at levels in line with the long term average. However, given the challenging business environment, the timeline for concluding transactions has lengthened and rent free periods have increased. Whilst the prescriptive planning environment in the West End ensures the supply of available space remains limited, future rental performance will be influenced by economic circumstances. The number of tenant defaults seen by the group in the period has been de minimis and, since the year end, the group's vacancy rate has decreased from 4.5% to 4.2%.

One of the key management initiatives concluded was the negotiation of the surrender of the principal tenant's lease at 1-3 Grosvenor Place. This facilitated the advancement of our long-term proposal to redevelop the building together with our adjoining holding at 4-5 Grosvenor Place.

Capital expenditure of £45 million was incurred on developments during the period. Three major projects totalling 26,900 sq m (289,000 sq ft) were completed, of which 76% is pre-let.

The refinancing of the £128 million of bank facilities that matured in 2008 has been successfully concluded.

Prospects

Notwithstanding the difficult times, the group remains in a strong position. The portfolio contains latent value to be unlocked over future years and, with its primary focus on the West End market, benefits from being underpinned by the security of a strong and highly reversionary income stream. By adopting a prudent approach to financing, we have a conservative level of gearing with significant funds available. This ensures that we are well equipped to tackle the present uncertainties and primed to take advantage of those opportunities that are likely to be presented as a result of ongoing market conditions.

R.A. Rayne
29th August 2008

Against the backdrop of a challenging and slowing economy, the first half of the year saw successes for the group with strong letting activity, the securing of three major planning consents for future projects and the conclusion of a number of asset management initiatives. Additionally, three strategic acquisitions, all adjacent to existing ownerships, were completed and the disposal process of non-core assets continued.

Valuation

As reported at the year end, the investment market has seen an increase in valuation yields since last summer as economic conditions have deteriorated following the upheaval in the financial markets. One consequence has been the dramatic reduction in the number of property investment transactions in the market to less than half of last year's levels. There has also been a slowdown in the wider occupational market, which is generally adversely affecting rental values, although to date we have yet to see this occur in our portfolio. Against these difficult conditions, our investment portfolio was valued at £2.5 billion as at 30th June 2008, producing a £161.9 million deficit for the first six months of 2008, before the lease incentive adjustment of £1.9 million. The valuation of investment properties, held throughout the period and excluding developments, was £2.4 billion, a decrease of £159.5 million (-6.3%), whilst the current development properties, valued at £137.7 million, fell by £1.7 million (-1.3%). Acquisitions completed in 2008 were valued at £15.5 million and produced the balancing £0.7 million deficit. Overall, the portfolio saw a valuation decrease of 6.1%.

Considering the valuation performance by location, the West End, which represents 74% of the investment portfolio by value, decreased by 5.3% in the first half of the year. Despite the adverse yield movement, a number of income producing properties such as Grosvenor Place (Belgravia), North Wharf Road (Paddington) and the Saatchi Building (Fitzrovia) were more resilient as they offer significant long-term development potential. Properties around the borders of the City, which comprise 20% of the portfolio, decreased by 7.8% in value during the period. Overall the central London properties declined by 5.8%. The remaining 6% of the portfolio are properties located outside of central London, principally in Scotland, and these decreased by 9.3% in value during the period.

Consequently, the true equivalent yield increased from 5.7% to 6.1% during the first half of the year. It was encouraging that, at 1.3%, rental value growth was positive over the period, albeit at a much lower rate than the 4.6% achieved in the second half of 2007. This performance was supported by our recent lettings and endorses the group's strategy of owning properties in improving areas, which are let on low, undemanding reversionary rents. This is illustrated further with our average office rent in the West End of £27.13 psf or £292 psm with an estimated rental value of £38.34 psf or £413 psm.

As at 30th June 2008, the portfolio's initial yield based on the annualised contracted rental income, net of ground rents, and including pre-let income, was 4.9%, rising to 6.7% on the full reversion. This compares to 4.4% and 6.3% respectively at the beginning of the year.

Lettings

Since the start of the year, letting activity for the group has been particularly impressive with 39 transactions concluded. These totalled 26,700 sq m and will generate a combined rental income of £11.0 million per annum. This surpassed the £8.3 million of lettings undertaken in the whole of 2007. Almost 70% of these transactions were pre-lets, which not only de-risked the projects, especially important in the current market, but also meant that the design could be finalised in a more cost and time efficient manner. In the first half of 2008, letting transactions totalled 10,600 sq m with a combined rental income of £3.7 million per annum. The balance of 16,100 sq m, or £7.3 million of income, has been let since the half-year and, principally, comprised the pre-letting of just over half of the Angel Building. Overall, lettings were concluded at 1.8% above year end estimated rental values. In addition to these achievements, the group currently has 3,800 sq m of floorspace under offer, at an annual rental income of £1.1 million. Consequently, the level of vacant space immediately available for letting stands at 4.2% of the portfolio's estimated rental value, a slight decrease from the 4.5% at the year end.

Business review

Letting transactions in the first half of 2008 included:

- 151 Rosebery Avenue, Clerkenwell - 1,800 sq m pre-let to Momentum Activating Demand, part of Interpublic Group, at a rent of £0.73 million per annum, reflecting £40 psf (£431 psm) on the best office space.
- Victory House, Fitzrovia - 2,100 sq m let to Arup at £0.70 million per annum. Arup are occupying this space until our nearby Phase III head office development is completed for them.
- Davidson Building, Covent Garden - 600 sq m let to LECG, an existing tenant in the building, at an annual rent of £0.43 million or £67.50 psf (£727 psm).
- 100 George Street, Marylebone - 310 sq m, in a new penthouse floor, let to Argent Construction at £0.29 million per annum, equating to a rent of £85 psf (£915 psm).

Lettings since the half year included:

- Angel Building, Islington/Clerkenwell - 13,000 sq m of the 24,400 sq m proposed building has been pre-let to Cancer Research UK on a 20 year lease with a break at year 15 and a 24 month rent free period. The rent is £5.6 million per annum with the main space achieving £41 psf (£441 psm). The letting covers the ground, first, second and part third floors with Cancer Research having the option to take the remaining 2,700 sq m of the third floor at a rent of £41 psf, or to exclude the entire floor from its occupancy. The building is due for completion in 2010.
- Gordon House, Victoria - 1,500 sq m was pre-let to The Benefit Express at a rental income of £0.86 million per annum. The tenant is taking the refurbished top two floors and a new penthouse office floor at a rent of £57.50 psf (£619 psm) on the best space. This sets a new rental level for the building which has undergone a phased refurbishment over the last few years.
- Qube, Fitzrovia - 1,100 sq m of the third floor was let to Geronimo Communications, part of the Tribal Group, at an annual rental income of £0.71 million, equating to a rent of £58 psf (£624 psm). Continuing our strategy of revitalising the retail along Tottenham Court Road, 120 sq m was let to Space NK, a cosmetic outlet.

Asset management

Asset management forms an integral part of our business as it is an important step in unlocking the development potential of future schemes, and in driving income forward. This year, we have already concluded a number of important initiatives.

In order to release the future value at one of the group's major property holdings, we negotiated the surrender of Hanson's lease at 1-3 Grosvenor Place, Belgravia. The tenant occupied 6,900 sq m and was paying a very low rent of just under £19 psf (£202 psm) on a lease that ran until 2024, subject to a review in 2009. The surrender facilitates our long term aspirations to redevelop the building in conjunction with our adjoining property, 4-5 Grosvenor Place. Our planning studies continue and indicate that the redevelopment of these properties, in association with our freeholders, The Grosvenor Estate, could yield a significant increase to the existing combined floor area of 15,000 sq m. The surrender immediately enhances the group's income by £1.2 million per annum by way of inheriting the under-tenants who occupy 75% of the building on leases that expire by 2010. A premium of £8.0 million, plus costs, was paid to Hanson for the surrender.

On our Fitzrovia estate, we concluded a major rent review in March, which involved several buildings centred on 80 Charlotte Street, totalling 15,100 sq m. Here, the rent was highly reversionary and achieved a 45% uplift to £4.6 million per annum.

We also concluded nine lease renewals in the first half of the year with an annual rental income of £0.85 million, and six lease re-gears with an annual rent of £0.62 million.

Despite the economic slowdown, the group's rent collection in the first half of the year remained healthy. In the first and second quarters, 97% and 98% respectively of our rent was collected within two weeks of the quarter date.

Project update

During the first half of the year, the group completed three major projects totalling 26,900 sq m. By floor area, 76% of these schemes were pre-let, with a combined rental of £7.7 million per annum.

- Horseferry House, Victoria - The comprehensive 15,200 sq m office refurbishment and remodelling of this imposing 1930s building was completed in May. In 2006, the property was pre-let to Burberry, the international fashion group, as its new global headquarters. The annual rent of £5.3 million per annum equates to £38 psf (£411 psm) on the prime space and offers significant reversionary potential. The refreshingly modern design has created high quality, air conditioned, office space centred around a striking reception atrium.
- Arup Phase II, Fitzrovia - The 5,300 sq m new development was completed and handed over to the tenant, Arup, in April. The rent is £2.4 million per annum, equating to £42 psf (£453 psm).
- Portobello Dock, Ladbrooke Grove - This mixed use 6,400 sq m canal-side project was completed at the beginning of May. The residential element of the scheme was pre-sold at the beginning of the year and the marketing of the office space - a new-build of 2,200 sq m and a separate office refurbishment of 2,700 sq m - is now underway.

There are four current developments. Work has commenced at Arup Phase III, which is adjacent to Phase II, with the demolition of the existing 1960s building now complete. On completion, in late 2009, it will provide Arup with a further 7,900 sq m of new offices, at a pre-agreed rental of £3.6 million per annum, an increase of £2.4 million.

Following the granting of planning permission in February for the Angel Building we have acted quickly in moving this major project forward. We are refurbishing and extending the existing building of 15,000 sq m to 24,400 sq m, an increase in floor area of 62%. The detailed design is finalised and construction is underway with completion scheduled for mid 2010, the same year in which the current income of £4.2 million per annum expires. As mentioned in the Lettings section, just over half of the property has been pre-let to Cancer Research UK.

At 16-19 Gresse Street, Noho, construction work is progressing well. The foundations and basement structure are now complete and the superstructure is taking shape. The 4,400 sq m speculative office building, just to the north of Soho Square, is due to be completed in summer 2009.

We also have a number of smaller office refurbishments underway. These include 151 Rosebery Avenue, Clerkenwell (79% pre-let) and three floors at Gordon House, Victoria (100% pre-let). Both projects will be completed later this year.

In addition to the planning consent obtained at the Angel Building, two other major future schemes were granted planning permission in the first half of 2008:

- 55-65 North Wharf Road, Paddington
In January, planning consent was granted for the redevelopment of this property to provide a 22,300 sq m office building, a 6,800 sq m, 100 unit, residential block and 270 sq m of retail space. This is in a prime central Paddington location, and the project would replace two low-rise 1960s buildings comprising 7,800 sq m to give an increase in total floor area of 276%. In the interim, the property is let at £1.6 million per annum with lease expiries in 2010.
- 40 Chancery Lane, Holborn
Planning consent was obtained in February for a 9,500 sq m new office building. This will replace three buildings of 6,600 sq m of which the group owns two, one as a freehold and the other leasehold. The freeholder of the latter is the owner of the third property. Our ownerships are let to a variety of tenants, with an annual rental income of £1.1 million, from leases that expire by 2012.

In July 2008, the Crossrail Bill received Royal Assent, which gave the go ahead for this major London rail link, subject to funding availability. This is welcome news for the capital and the group, since we hold significant interests at the junction of Charing Cross Road and Oxford Street - the proposed site for one of the most strategic Crossrail stations. The implementation of Crossrail would unlock the significant development potential at this location and, ultimately, we will have the option to develop this important West End commercial site once the station works are complete. Negotiations are ongoing to take this complex regeneration project forward.

Business review

Disposals

The group has continued its disposal programme of non-core assets. Sales totalled £56.1 million, before costs, in the first half of the year and achieved a profit of £2.1 million.

The principal disposals were:

- Bargate portfolio, Southampton for £19.0 million - a shopping centre with adjacent retail units.
- Portobello Apartments, Ladbrooke Grove for £12.6 million - the entire residential element of our Portobello Dock project.
- 30/32, 58/59 and 66 Myddelton Square, Clerkenwell for £9.5 million - residential properties.
- 20-26 Rosebery Avenue and 11 Warner Street, Clerkenwell for £7.8 million - a small office refurbishment opportunity.

Since the half year, the group has made further disposals totalling £14.4 million, before costs, which included the Burlington Arcade and Quadrant Centre in Bournemouth for £10.6 million and 117-125 George Street, Marylebone for £1.7 million.

Acquisitions

In the period to the end of June, the group spent £15.5 million, excluding costs, on three properties that were all adjacent to existing ownerships. The principal purchase was 53-65 Whitfield Street, Fitzrovia. The 2,700 sq m building, acquired in February for £13.5 million, is let at an annual income of £0.75 million. This acquisition complements our existing holdings in Fitzrovia, which amount to over 1 million sq ft (92,900 sq m).

Since the half year, we have completed a lease re-gear and property exchange in Noho. The freehold of our 16-19 Gresse Street property was exchanged for a new leasehold interest, whilst our headlease on 7-8 Rathbone Place was extended. In addition, new head leases were acquired on the adjacent 9 and 10 Rathbone Place and the surrounding courtyard. We now have a 120 year leasehold interest over all these ownerships with a ground rent of 12% of the rent received. This transaction both expands our ownership in the area and enables us to improve the immediate surrounds of this redevelopment.

Debt and cash flow

During the first half year, net debt rose £63.1 million to £845.9 million at the end of June. This increase can be attributed simply to tax paid during the period, specifically the REIT conversion charge of approximately £54 million. Other notable cash flows during this time were £61 million in respect of property acquisitions and capital expenditure, and £55 million from the sale of investment properties.

In these times of economic uncertainty, it is important to note that the group's financial ratios remain sound. Despite increased debt and falling property values, balance sheet gearing was still a comfortable 50.3%, and mortgage gearing (as defined in the 2007 annual report) was low at 32.6%. The profit and loss gearing, ignoring the exceptional reverse surrender premium payment, was 1.77 and if this premium was included this would reduce to 1.43. At the half year, 60% of the nominal value of net debt was either at fixed rates, or fixed using interest rate derivative products, so that the group's spot average weighted cost of debt was about 6.1%. The value of the derivative products can be gauged from the increase in their fair value credited to the group income statement. For the half year, this amounted to £7.8 million to give the total shown in the group balance sheet of £9.1 million.

Under IFRS, the movement in the fair value of derivative instruments has to be included in the results for the period, whilst the fair value of the fixed rate bond does not. At the half year, the bond was valued at £172.8 million to show a gain of £2.2 million compared with a loss of £13.2 million at June 2007 and £15.0 million at December 2007.

The problems in the global banking sector have been well documented, with most banks reporting headline grabbing losses. This is creating a challenging environment for companies across all business sectors as banks look to reduce their lending commitments to restore their capital ratios, and increase their profitability by raising lending margins. The current tight market is expected to last through 2010. In such a situation, the company should benefit from its long term relationships with a small number of banks. This has been the case so far with the company having refinanced all of its debt that was due to mature in 2008 on new terms of at least five years, and on margins which will not add a material amount to its interest charge.

On behalf of the board

J. D. Burns
29th August 2008

The directors confirm to the best of their knowledge:

- (a) The condensed set of financial statements, which has been prepared in accordance with IAS 34 "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and profit of the group; and
- (b) The interim management report includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the UK Financial Services Authority.

On behalf of the board

J.D. Burns
Chief executive officer

C.J. Odom
Finance director
29th August 2008

Directors

R.A. Rayne, non-executive chairman
J.C. Ivey, non-executive deputy chairman†
J.D. Burns, chief executive officer
S.P. Silver
C.J. Odom
N.Q. George
P.M. Williams
D.G. Silverman
S.J. Neathercoat, senior non-executive*
R.A. Farnes, non-executive*
S.A. Corbyn, non-executive*
D. Newell, non-executive*
J. de Moller, non-executive*

†Member of nomination committee

*Member of remuneration, audit and nomination committees

Group income statement (unaudited)

| | Note | Half year to 30.06.08 | Half year to 30.06.07 Restated | Year to 31.12.07 |
|--|------|--------------------------|--------------------------------------|---------------------|
| | | £m | £m | £m |
| Gross property income | | 57.5 | 50.5 | 111.7 |
| Development income | 4 | 0.5 | 6.8 | 2.0 |
| Property outgoings | | (7.1) | (4.4) | (9.9) |
| Reverse surrender premium | | (8.3) | – | – |
| Write-down of trading property | | (1.0) | – | – |
| Total property outgoings | | (16.4) | (4.4) | (9.9) |
| Net property income | | 41.6 | 52.9 | 103.8 |
| Administrative expenses | | (9.5) | (10.7) | (19.5) |
| Movement in valuation of cash-settled share options | | 1.1 | 0.3 | 1.6 |
| Goodwill impairment | | – | (353.3) | (353.3) |
| Total administrative expenses | | (8.4) | (363.7) | (371.2) |
| Revaluation (deficit)/surplus | | (163.8) | 243.2 | 90.3 |
| Profit on disposal of properties and investments | 5 | 2.1 | 10.0 | 130.8 |
| Loss from operations | | (128.5) | (57.6) | (46.3) |
| Finance income | | 0.4 | 0.6 | 2.8 |
| Exceptional finance income | 6 | – | 1.5 | 1.5 |
| Total finance income | | 0.4 | 2.1 | 4.3 |
| Finance costs | | (24.1) | (24.0) | (49.1) |
| Exceptional finance costs | 6 | – | (3.3) | (3.3) |
| Total finance costs | | (24.1) | (27.3) | (52.4) |
| Movement in fair value of derivative financial instruments | | 7.8 | 6.7 | (5.1) |
| Share of results of joint ventures | 7 | (0.3) | (0.2) | (0.3) |
| Loss before tax | | (144.7) | (76.3) | (99.8) |
| Tax credit | 8 | 2.2 | 224.0 | 200.7 |
| (Loss)/profit for the period | | (142.5) | 147.7 | 100.9 |
| Attributable to: | | | | |
| Equity shareholders | 18 | (139.4) | 146.2 | 97.0 |
| Minority interest | 18 | (3.1) | 1.5 | 3.9 |
| (Loss)/earnings per share | 9 | (138.42)p | 158.44p | 100.55p |
| Diluted (loss)/earnings per share | 9 | (138.42)p | 157.48p | 100.11p |

Group balance sheet (unaudited)

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| | Note | 30.06.08 | 30.06.07 | 31.12.07 |
|-----------------------------------|------|----------------|----------|----------|
| | | | Restated | |
| | | £m | £m | £m |
| Non-current assets | | | | |
| Investment property | 13 | 2,496.8 | 2,804.6 | 2,654.6 |
| Property, plant and equipment | 14 | 1.4 | 110.7 | 1.4 |
| Investments | | 8.4 | 8.1 | 5.1 |
| Pension scheme surplus | | 2.5 | 2.9 | 2.8 |
| Derivatives | 16 | 9.1 | 13.0 | 1.2 |
| Other receivables | | 25.1 | 21.6 | 23.3 |
| | | 2,543.3 | 2,960.9 | 2,688.4 |
| Current assets | | | | |
| Trading properties | 15 | 8.4 | 9.4 | 9.4 |
| Trade and other receivables | | 55.5 | 34.1 | 61.0 |
| Cash and cash equivalents | | 5.8 | 20.9 | 10.3 |
| | | 69.7 | 64.4 | 80.7 |
| Non-current assets held for sale | | – | – | 3.4 |
| | | 69.7 | 64.4 | 84.1 |
| Total assets | | 2,613.0 | 3,025.3 | 2,772.5 |
| Current liabilities | | | | |
| Bank overdraft and loans | 16 | 100.0 | 38.6 | 120.6 |
| Trade and other payables | | 54.9 | 30.4 | 48.0 |
| Corporation tax liability | | 11.4 | 62.2 | 75.4 |
| Provisions | | 0.2 | 0.8 | 0.5 |
| | | 166.5 | 132.0 | 244.5 |
| Non-current liabilities | | | | |
| Borrowings | 16 | 751.7 | 929.9 | 672.5 |
| Provisions | | 1.8 | 4.3 | 2.8 |
| Deferred tax liability | 17 | 10.3 | 26.0 | 10.8 |
| | | 763.8 | 960.2 | 686.1 |
| Total liabilities | | 930.3 | 1,092.2 | 930.6 |
| Total net assets | | 1,682.7 | 1,933.1 | 1,841.9 |
| Equity | | | | |
| Share capital | 18 | 5.0 | 5.0 | 5.0 |
| Share premium | | 157.0 | 156.1 | 157.0 |
| Revaluation reserve | | – | 37.2 | – |
| Other reserves | | 914.4 | 914.8 | 914.0 |
| Retained earnings | | 550.9 | 762.5 | 706.0 |
| Equity shareholders' funds | | 1,627.3 | 1,875.6 | 1,782.0 |
| Minority interest | | 55.4 | 57.5 | 59.9 |
| Total equity | | 1,682.7 | 1,933.1 | 1,841.9 |

Group statement of recognised income and expense (unaudited)

| | Half year to 30.06.08 | Half year to 30.06.07 Restated | Year to 31.12.07 |
|---|--------------------------|--------------------------------------|---------------------|
| | £m | £m | £m |
| (Loss)/profit for the period | (142.5) | 147.7 | 100.9 |
| Revaluation of assets under construction | – | 53.2 | – |
| Deferred tax in respect of assets under construction | – | (16.0) | – |
| Actuarial (deficit)/gains on defined benefit pension scheme | (0.6) | 1.5 | 1.3 |
| Foreign currency translation | – | – | (0.6) |
| Net (losses)/gains recognised directly in equity | (0.6) | 38.7 | 0.7 |
| Total recognised income and expense relating to the period | (143.1) | 186.4 | 101.6 |
| Attributable to: | | | |
| Equity shareholders | (140.0) | 184.9 | 97.7 |
| Minority interest | (3.1) | 1.5 | 3.9 |

Group cash flow statement (unaudited)

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| | Note | Half year to 30.06.08 £m | Half year to 30.06.07 £m | Year to 31.12.07 £m |
|--|------|--------------------------------|--------------------------------|---------------------------|
| Operating activities | | | | |
| Cash received from tenants | | 57.0 | 63.8 | 111.9 |
| Development income | | 13.1 | – | – |
| Direct property expenses | | (8.8) | (7.6) | (10.1) |
| Reverse surrender premium | | (8.3) | – | – |
| Cash paid to and on behalf of employees | | (8.0) | (5.7) | (10.2) |
| Other administrative expenses | | (3.6) | (5.5) | (8.8) |
| Interest received | | 1.5 | 1.0 | 2.5 |
| Interest paid | | (23.1) | (26.5) | (53.4) |
| Exceptional finance costs | 21 | – | (3.3) | (3.3) |
| Tax expense paid in respect of operating activities | | (0.1) | (1.4) | (0.2) |
| Net cash from operating activities | | 19.7 | 14.8 | 28.4 |
| Investing activities | | | | |
| Acquisition of investment properties | | (16.9) | (20.9) | (140.7) |
| Capital expenditure on investment properties | | (44.4) | (42.9) | (65.1) |
| Disposal of investment properties | | 55.3 | 19.4 | 233.2 |
| Capital expenditure on assets under construction | | – | (3.2) | (3.2) |
| Disposal of assets under construction | | – | – | 110.1 |
| Acquisition of subsidiaries (net of cash acquired) | | – | (38.4) | (38.4) |
| Payment of subsidiaries' pre-acquisition expenses | 21 | – | (17.3) | (16.0) |
| Purchase of property, plant and equipment | | (0.1) | (0.1) | (0.2) |
| Disposal of property, plant and equipment | | – | 0.2 | 0.3 |
| Disposal of investments | | – | 9.2 | 9.1 |
| Distributions received from joint ventures | | – | 5.7 | 5.7 |
| Payments in relation to joint ventures | | (0.3) | – | (0.3) |
| Purchase of minority interest | | (0.4) | – | – |
| Loan to minority interest holder | | (2.5) | – | (14.3) |
| Distributions to minority interest holder | | (1.0) | – | – |
| REIT conversion charge | | (53.6) | – | – |
| Tax expense paid in respect of investing activities | | (8.1) | (0.3) | (11.0) |
| Net cash (used in)/from investing activities | | (72.0) | (88.6) | 69.2 |
| Financing activities | | | | |
| Movement in bank loans | | 95.6 | 91.5 | (83.3) |
| Movement in loan notes | | (28.4) | 32.5 | 32.0 |
| Redemption of debenture | | – | (26.6) | (26.6) |
| Net proceeds of share issues | | – | – | 0.1 |
| Dividends paid | | (13.5) | (5.6) | (13.2) |
| Net cash from/(used in) financing activities | | 53.7 | 91.8 | (91.0) |
| Increase in cash and cash equivalents in the period | | 1.4 | 18.0 | 6.6 |
| Cash and cash equivalents at the beginning of the period | | 4.4 | (2.2) | (2.2) |
| Cash and cash equivalents at the end of the period | | 5.8 | 15.8 | 4.4 |

Notes to the financial statements

1 This statement does not comprise statutory accounts as defined in Section 240 of the Companies Act 1985. The results for the half year to 30th June 2008 and the comparative period for the half year to 30th June 2007 have not been audited. The results to 31st December 2007 are extracted from the financial statements for that year. These received an unqualified independent auditor's report which did not refer to any matter to which the auditors drew attention by way of emphasis without qualifying their report, nor contain a statement under s237(2)-(3) of the Companies Act 1985 and have been filed with the Registrar of Companies.

The results for the half year to 30th June 2008 include those for the holding company and all of its subsidiaries, together with the group's share of the results of its joint ventures. The results are prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) and in accordance with IAS 34, Interim Financial Reporting. The same accounting policies, presentation and methods of computation have been followed in the preparation of these results as were applied in the group's latest annual audited financial statements except for the policy on reverse surrender premiums described below. It is not expected that there will be any changes or additions to these in the 2008 annual financial statements. There is no material seasonal impact on the group's financial statements.

Reverse surrender premiums - Payments made to tenants to surrender their lease obligations are charged directly to the group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, the costs are capitalised as part of the carrying value of the property.

5 Profit on disposal of properties and investments

| | Half year to 30.06.08 £m | Half year to 30.06.07 £m | Year to 31.12.07 £m |
|---------------------------|--------------------------------|--------------------------------|---------------------------|
| Investment property | | | |
| Disposal proceeds | 54.8 | 19.6 | 233.6 |
| Carrying value | (52.7) | (10.6) | (157.4) |
| | 2.1 | 9.0 | 76.2 |
| Assets under construction | | | |
| Disposal proceeds | - | - | 109.9 |
| Carrying value | - | - | (56.3) |
| | - | - | 53.6 |
| Investments | | | |
| Disposal proceeds | - | 9.1 | 9.1 |
| Carrying value | - | (8.1) | (8.1) |
| | - | 1.0 | 1.0 |
| Total | | | |
| Disposal proceeds | 54.8 | 28.7 | 352.6 |
| Carrying value | (52.7) | (18.7) | (221.8) |
| | 2.1 | 10.0 | 130.8 |

The profit on disposal of properties and investments includes £1.8m (half year to 30th June 2007: £8.6m; year to 31st December 2007: £112.6m) which relates to properties acquired as part of the acquisition of London Merchant Securities plc in February 2007.

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 2007 financial statements.

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

3 Segmental reporting

During the period, the group had only one (half year to 30th June 2007: one; year to 31st December 2007: one) business activity, that being property investment, refurbishment and redevelopment. It operates only in the United Kingdom and the directors consider that all properties carry a similar risk profile.

4 Development income

The amount of £0.5m (half year to 30th June 2007: £6.8m; year to 31st December 2007: £2.0m) is the proportion of the total profit share estimated to have been earned by the group in the half year to 30th June 2008 from the construction and letting of a property on behalf of a third party.

6 Exceptional finance income and costs

The exceptional profit included in the results for the year to 31st December 2007 and the half year to 30th June 2007 arose following the payment of a £6.6m premium on the redemption of a debenture. The debenture was fair valued at £8.1m on the acquisition of London Merchant Securities plc. The year to 31st December 2007 and the half year to 30th June 2007 also contained exceptional finance costs of £3.3m which was the cost of acquisition finance.

7 Share of results of joint ventures

| | Half year to 30.06.08 | Half year to 30.06.07 | Year to 31.12.07 |
|---|--------------------------|--------------------------|---------------------|
| | £m | £m | £m |
| Loss from disposal of investment properties | - | (0.2) | (0.7) |
| Revaluation deficit | (0.3) | - | - |
| Other profit from operations after tax | - | - | 0.4 |
| | (0.3) | (0.2) | (0.3) |

8 Tax credit

| | Half year to 30.06.08 | Half year to 30.06.07 | Year to 31.12.07 |
|---|--------------------------|--------------------------|---------------------|
| | £m | £m | £m |
| Corporation tax (credit)/expense | | | |
| UK corporation tax and income tax on profits for the period | 2.5 | 10.2 | 33.5 |
| REIT conversion charge | - | 54.7 | 53.6 |
| Adjustment for (over)/under provision in prior periods | (4.2) | - | 0.3 |
| | (1.7) | 64.9 | 87.4 |
| Deferred tax credit | | | |
| Origination and reversal of temporary differences | (0.5) | (288.9) | (287.4) |
| Change in tax rates | - | - | (0.7) |
| | (0.5) | (288.9) | (288.1) |
| | (2.2) | (224.0) | (200.7) |

The tax for the half year to 30th June 2008 is higher (half year to 30th June 2007 and year to 31st December 2007: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

| | Half year to 30.06.08 | Half year to 30.06.07 | Year to 31.12.07 |
|---|--------------------------|--------------------------|---------------------|
| | £m | £m | £m |
| Loss before tax | (144.7) | (76.3) | (99.8) |
| Expected tax credit based on the standard rate of corporation tax in the UK of 28% (2007: 30%) | (40.5) | (22.9) | (29.9) |
| Difference between tax and accounting profit on disposals | (0.6) | 1.0 | (9.4) |
| Goodwill impairment | - | 106.0 | 106.0 |
| REIT conversion charge | - | 54.7 | 53.6 |
| Revaluation deficit/(surplus) attributable to REIT properties | 47.2 | - | (24.1) |
| Deferred tax released as a result of REIT conversion | - | (361.8) | (288.7) |
| Other differences | (4.1) | (1.0) | (8.5) |
| Tax expense/(credit) on current period's profit | 2.0 | (224.0) | (201.0) |
| Adjustments in respect of prior periods' tax | (4.2) | - | 0.3 |
| | (2.2) | (224.0) | (200.7) |
| Tax charged directly to reserves | | | |
| Deferred tax on revaluation of assets under construction | - | 16.0 | - |

Notes to the financial statements

9 (Loss)/earnings per share

| | (Loss)/ profit for the period £m | Weighted average number of shares '000 | (Loss)/ earnings per share p |
|--|---|---|---------------------------------------|
| Half year ended 30th June 2008 | (139.4) | 100,708 | (138.42) |
| Adjustment for dilutive share-based payments | – | – | – |
| Diluted | (139.4) | 100,708 | (138.42) |

The diluted loss per share for the half year to 30th June 2008 has been restricted to a loss of 138.42p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

| | | | |
|--|--------------|---------------|---------------|
| Half year ended 30th June 2007 | 146.2 | 92,275 | 158.44 |
| Adjustment for dilutive share-based payments | – | 561 | (0.96) |
| Diluted | 146.2 | 92,836 | 157.48 |

| | | | |
|--|-------------|---------------|---------------|
| Year ended 31st December 2007 | 97.0 | 96,473 | 100.55 |
| Adjustment for dilutive share-based payments | – | 418 | (0.44) |
| Diluted | 97.0 | 96,891 | 100.11 |

| | | | |
|---|------------|----------------|-----------------|
| Half year ended 30th June 2008 | (139.4) | 100,708 | (138.42) |
| Adjustment for: | | | |
| Disposal of investment properties | (1.2) | – | (1.19) |
| Group revaluation surplus | 162.1 | – | 160.96 |
| Share of joint venture's revaluation deficit | 0.3 | – | 0.30 |
| Fair value movement in derivative financial instruments | (7.8) | – | (7.75) |
| Development income | (0.4) | – | (0.40) |
| Minority interests in respect of the above | (3.8) | – | (3.77) |
| Recurring | 9.8 | 100,708 | 9.73 |
| Adjustment for dilutive share-based payments | – | 513 | (0.05) |
| Diluted recurring | 9.8 | 101,221 | 9.68 |

| | | | |
|---|------------|---------------|-------------|
| Half year ended 30th June 2007 | 146.2 | 92,275 | 158.44 |
| Adjustment for: | | | |
| Disposal of investment properties and investments | (7.0) | – | (7.59) |
| Group revaluation surplus | (170.3) | – | (184.56) |
| Fair value movement in derivative financial investments | (6.7) | – | (7.26) |
| Deferred tax released as a result of REIT conversion | (361.8) | – | (392.09) |
| REIT conversion charge | 54.7 | – | 59.28 |
| Goodwill impairment | 353.3 | – | 382.88 |
| Disposal of joint venture property | 0.2 | – | 0.22 |
| Development income | (4.8) | – | (5.20) |
| Minority interests in respect of the above | 4.2 | – | 4.55 |
| Recurring | 8.0 | 92,275 | 8.67 |
| Adjustment for dilutive share-based payments | – | 561 | (0.05) |
| Diluted recurring | 8.0 | 92,836 | 8.62 |

9 (Loss)/earnings per share (continued)

| | (Loss)/ profit for the period £m | Weighted average number of shares '000 | (Loss)/ earnings per share p |
|---|---|---|---------------------------------------|
| Year ended 31st December 2007 | 97.0 | 96,473 | 100.55 |
| Adjustment for: | | | |
| Disposal of properties and investments | (98.2) | – | (101.79) |
| Disposal of joint venture property | 0.7 | – | 0.72 |
| Group revaluation surplus | (89.0) | – | (92.26) |
| Fair value movement in derivative financial instruments | 5.1 | – | 5.28 |
| Deferred tax released as a result of REIT conversion | (288.7) | – | (299.25) |
| REIT conversion charge | 53.6 | – | 55.56 |
| Goodwill impairment | 353.3 | – | 366.22 |
| Development income | (1.4) | – | (1.45) |
| Exceptional finance income and costs | (1.2) | – | (1.24) |
| Minority interests in respect of the above | 2.7 | – | 2.80 |
| Recurring | 33.9 | 96,473 | 35.14 |
| Adjustment for dilutive share-based payments | – | 418 | (0.15) |
| Diluted recurring | 33.9 | 96,891 | 34.99 |

The recurring earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, the profit or loss arising from the disposal of properties and investments, the development income and any exceptional costs and income in order to show the underlying trend. In addition, the conversion charge and the release of deferred tax related to the transfer to REIT status and the impairment of goodwill resulting from the acquisition of London Merchant Securities plc have also been excluded.

10 Total return

Total return for the half year to 30th June 2008 was negative 8.3% (half year to 30th June 2007: 6.5%; year to 31st December 2007: 2.8%). Total return is the movement in adjusted net asset value per share, as derived in note 20, plus the dividend per share paid during the period expressed as a percentage of the adjusted net asset value per share at the beginning of the period.

11 Gearing

Balance sheet gearing at 30th June 2008 was 50.3% (30th June 2007: 49.1%; 31st December 2007: 42.5%). This is defined as net debt divided by net assets.

Profit and loss gearing for the half year to 30th June 2008 was 1.77 before deducting the reverse surrender premium from net property income and 1.43 after this deduction (half year to 30th June 2007: 1.50; year to 31st December 2007: 1.81). This is defined as recurring net property income less administrative costs divided by net interest payable, having reversed the reallocation of ground rent payable on leasehold properties to interest payable of £0.3m (half year to 30th June 2007: £0.3m; year to 31st December 2007: £0.7m). For 2007, the only adjustment to net property income to arrive at recurring net property income is to exclude development income. Additionally in 2008, the write-down of trading property is also excluded.

12 Risk management

The group is exposed through its operations to the following significant risks:

Strategic: Downturn in the property sector, and changes to central London planning requirements

Corporate: Non-compliance with regulations

Property: Contractor or sub-contractor insolvency, and project cost overrun

Financial: Breaching REIT regulations, credit risk, fair value or cash flow interest rate risk, and liquidity risk

There has been no change to these risks since the last year end and no change is expected in the remaining six months of the year. A full description of the nature of these risks and the methods employed to mitigate them is included on pages 37 and 53 to 55 of the 2007 financial statements.

Notes to the financial statements

13 Investment property

| | Freehold £m | Leasehold £m | Total £m |
|---|----------------|-----------------|----------------|
| Carrying value | | | |
| At 1st January 2008 | 2,224.1 | 430.5 | 2,654.6 |
| Acquisitions | 16.2 | – | 16.2 |
| Capital expenditure | 42.2 | 2.7 | 44.9 |
| Additions | 58.4 | 2.7 | 61.1 |
| Disposals | (42.4) | (10.3) | (52.7) |
| Revaluation | (147.6) | (16.2) | (163.8) |
| Movement in grossing up of headlease liabilities | – | (2.4) | (2.4) |
| At 30th June 2008 | 2,092.5 | 404.3 | 2,496.8 |
| At 1st January 2007 | 1,025.2 | 248.8 | 1,274.0 |
| Arising on acquisition of subsidiary | 1,104.6 | 141.0 | 1,245.6 |
| Acquisitions | – | 21.0 | 21.0 |
| Capital expenditure | 30.1 | 1.3 | 31.4 |
| Additions | 1,134.7 | 163.3 | 1,298.0 |
| Disposals | (10.6) | – | (10.6) |
| Revaluation | 209.1 | 34.1 | 243.2 |
| At 30th June 2007 | 2,358.4 | 446.2 | 2,804.6 |
| At 1st January 2007 | 1,025.2 | 248.8 | 1,274.0 |
| Arising on acquisition of subsidiary | 1,104.6 | 141.0 | 1,245.6 |
| Acquisitions | 120.5 | 21.0 | 141.5 |
| Capital expenditure | 57.1 | 3.9 | 61.0 |
| Additions | 1,282.2 | 165.9 | 1,448.1 |
| Disposals | (151.2) | (6.2) | (157.4) |
| Revaluation | 67.9 | 22.4 | 90.3 |
| Movement in grossing up of headlease liabilities | – | (0.4) | (0.4) |
| At 31st December 2007 | 2,224.1 | 430.5 | 2,654.6 |
| Adjustments from fair value to carrying value | | | |
| At 30th June 2008 | | | |
| Fair value | 2,119.0 | 399.2 | 2,518.2 |
| Adjustment for rents recognised in advance | (26.5) | (1.5) | (28.0) |
| Adjustment for grossing up of headlease liabilities | – | 6.6 | 6.6 |
| Carrying value | 2,092.5 | 404.3 | 2,496.8 |
| At 30th June 2007 | | | |
| Fair value | 2,381.4 | 437.7 | 2,819.1 |
| Adjustment for rents recognised in advance | (23.0) | (1.0) | (24.0) |
| Adjustment for grossing up of headlease liabilities | – | 9.5 | 9.5 |
| Carrying value | 2,358.4 | 446.2 | 2,804.6 |
| At 31st December 2007 | | | |
| Fair value | 2,249.0 | 422.7 | 2,671.7 |
| Adjustment for rents recognised in advance | (24.9) | (1.2) | (26.1) |
| Adjustment for grossing up of headlease liabilities | – | 9.0 | 9.0 |
| Carrying value | 2,224.1 | 430.5 | 2,654.6 |

13 Investment property (continued)

The investment properties were revalued at 30th June 2008 by external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited revalued the properties to a value of £2,490.2m (30th June 2007: £2,800.3m; 31st December 2007: £2,647.9m); other valuers £28.0m (30th June 2007: £18.8m; 31st December 2007: £23.8m). At 30th June 2008, the historical cost of investment property owned by the group was £2,019.3m (30th June 2007: £1,985.8m; 31st December 2007: £1,990.7m).

14 Property, plant and equipment

| | Assets under construction £m | Plant and equipment £m | Total £m |
|--------------------------------------|------------------------------------|------------------------------|-------------|
| Net book value | | | |
| At 1st January 2008 | – | 1.4 | 1.4 |
| Additions | – | 0.1 | 0.1 |
| Depreciation | – | (0.1) | (0.1) |
| At 30th June 2008 | – | 1.4 | 1.4 |
| At 1st January 2007 | – | 0.3 | 0.3 |
| Arising on acquisition of subsidiary | 53.1 | 1.6 | 54.7 |
| Additions | 2.7 | 0.1 | 2.8 |
| Disposals | – | (0.2) | (0.2) |
| Depreciation | – | (0.1) | (0.1) |
| Revaluation | 53.2 | – | 53.2 |
| At 30th June 2007 | 109.0 | 1.7 | 110.7 |
| At 1st January 2007 | – | 0.3 | 0.3 |
| Arising on acquisition of subsidiary | 53.1 | 1.6 | 54.7 |
| Additions | 3.3 | 0.2 | 3.5 |
| Disposals | (56.4) | (0.5) | (56.9) |
| Depreciation | – | (0.2) | (0.2) |
| At 31st December 2007 | – | 1.4 | 1.4 |
| Net book value at 30th June 2008 | | | |
| Cost or valuation | – | 3.2 | 3.2 |
| Accumulated depreciation | – | (1.8) | (1.8) |
| | – | 1.4 | 1.4 |
| Net book value at 30th June 2007 | | | |
| Cost or valuation | 109.0 | 3.2 | 112.2 |
| Accumulated depreciation | – | (1.5) | (1.5) |
| | 109.0 | 1.7 | 110.7 |
| Net book value at 31st December 2007 | | | |
| Cost or valuation | – | 3.1 | 3.1 |
| Accumulated depreciation | – | (1.7) | (1.7) |
| | – | 1.4 | 1.4 |

Assets under construction were revalued at 30th June 2007 at £109.0m by CB Richard Ellis Limited, as external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors and had been sold by 31st December 2007.

15 Trading properties

The fair value of trading properties at each reporting date is the same as their book value.

Notes to the financial statements

16 Derivatives and borrowings

| | 30.06.08 | 30.06.07 | 31.12.07 |
|----------------------------------|----------|----------|----------|
| | £m | £m | £m |
| Non-current assets | | | |
| Derivative financial instruments | (9.1) | (13.0) | (1.2) |
| Current liabilities | | | |
| Bank loans | 100.0 | 33.3 | 113.4 |
| Unsecured loans | – | 0.2 | 1.3 |
| Overdraft | – | 5.1 | 5.9 |
| | 100.0 | 38.6 | 120.6 |
| Non-current liabilities | | | |
| 6.5% Secured Bonds 2026 | 194.6 | 195.4 | 194.9 |
| Loan notes | 3.6 | 32.5 | 32.0 |
| Bank loans | 518.1 | 689.0 | 434.0 |
| Mortgages | – | 2.2 | 2.2 |
| Unsecured loans | 28.8 | 1.3 | 0.4 |
| Leasehold liabilities | 6.6 | 9.5 | 9.0 |
| | 751.7 | 929.9 | 672.5 |
| Net financial liabilities | 842.6 | 955.5 | 791.9 |

17 Deferred tax

| | Revaluation surplus | Capital allowances | Other | Total |
|--|---------------------|--------------------|--------------|-------------|
| | £m | £m | £m | £m |
| At 1st January 2008 | 13.1 | – | (2.3) | 10.8 |
| Provided during the period in group income statement | (1.7) | – | 1.2 | (0.5) |
| At 30th June 2008 | 11.4 | – | (1.1) | 10.3 |
| At 1st January 2007 | 150.2 | 16.3 | 0.7 | 167.2 |
| Arising on acquisition of subsidiary | 135.9 | 7.8 | (11.3) | 132.4 |
| Transfer to investment in joint ventures | (0.7) | – | – | (0.7) |
| Released during the period in group income statement | (343.7) | (24.1) | 6.0 | (361.8) |
| Provided during the period in group income statement | 72.9 | – | – | 72.9 |
| Provided during the period in revaluation reserve | 16.0 | – | – | 16.0 |
| At 30th June 2007 | 30.6 | – | (4.6) | 26.0 |
| At 1st January 2007 | 150.2 | 16.3 | 0.7 | 167.2 |
| Arising on acquisition of subsidiary | 135.9 | 7.8 | (11.3) | 132.4 |
| Transfer to investment in joint ventures | (0.7) | – | – | (0.7) |
| Provided during the year in group income statement | 1.3 | – | – | 1.3 |
| Released during the year in group income statement | (272.7) | (24.1) | 8.1 | (288.7) |
| Change in tax rates | (0.9) | – | 0.2 | (0.7) |
| At 31st December 2007 | 13.1 | – | (2.3) | 10.8 |

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

18 Equity

| | Share capital £m | Share premium £m | Revaluation reserve £m | Other reserves £m | Retained earnings £m | Minority interest £m |
|---|------------------------|------------------------|------------------------------|-------------------------|----------------------------|----------------------------|
| At 1st January 2008 | 5.0 | 157.0 | – | 914.0 | 706.0 | 59.9 |
| Share-based payments expense | | | | | | |
| transferred to reserves | – | – | – | 0.4 | – | – |
| Pension deficits | – | – | – | – | (0.6) | – |
| Profit for the period | – | – | – | – | (139.4) | (3.1) |
| Dividend paid | – | – | – | – | (15.1) | – |
| Dividend paid to minority interest | – | – | – | – | – | (1.0) |
| Purchase of minority interest | – | – | – | – | – | (0.4) |
| At 30th June 2008 | 5.0 | 157.0 | – | 914.4 | 550.9 | 55.4 |
| At 1st January 2007 | 2.6 | 156.1 | – | 3.8 | 620.9 | – |
| Arising on acquisition of subsidiary | – | – | – | – | – | 56.0 |
| Issue of shares | 2.4 | – | – | – | – | – |
| Premium on issue of shares | – | – | – | 910.5 | – | – |
| Revaluation of assets under construction | – | – | 53.2 | – | – | – |
| Deferred tax on revaluation of assets under construction | – | – | (16.0) | – | – | – |
| Pension gains | – | – | – | – | 1.5 | – |
| Foreign exchange translation differences | – | – | – | – | (0.5) | – |
| Share-based payments expense | | | | | | |
| transferred to reserves | – | – | – | 0.5 | – | – |
| Profit for the period | – | – | – | – | 146.2 | 1.5 |
| Dividend paid | – | – | – | – | (5.6) | – |
| At 30th June 2007 | 5.0 | 156.1 | 37.2 | 914.8 | 762.5 | 57.5 |
| At 1st January 2007 | 2.6 | 156.1 | – | 3.8 | 620.9 | – |
| Arising on acquisition of subsidiary | – | – | – | – | – | 56.0 |
| Issue of shares | 2.4 | – | – | – | – | – |
| Premium on issue of shares | – | 0.9 | – | 910.5 | – | – |
| Share-based payments expense | | | | | | |
| transferred to reserves | – | – | – | 0.3 | – | – |
| Pension gains | – | – | – | – | 1.3 | – |
| Foreign exchange translation differences | – | – | – | (0.6) | – | – |
| Profit for the year | – | – | – | – | 97.0 | 3.9 |
| Dividends paid | – | – | – | – | (13.2) | – |
| At 31st December 2007 | 5.0 | 157.0 | – | 914.0 | 706.0 | 59.9 |

The £910.5m movement in other reserves in the half year to 30th June 2007 and the year to 31st December 2007 relates to the premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc.

To accord with the treatment in the 31st December 2007 annual report and accounts, the minority interest of £56.0m, arising on the acquisition of London Merchant Securities plc, has been included in total equity in the results for the six months to 30th June 2007. Consequently, the goodwill impairment has been increased by the same amount and, as a result, profit for the half year to 30th June 2007 and retained earnings at that date are £56.0m lower than reported in the 2007 interim report. There is no effect on net assets.

19 Dividend

The results for the half year to 30th June 2008 do not include the dividend declared after the end of the accounting period. In respect of these results, a dividend of 8.15p per share (2007 interim: 7.5p; 2007 final: 15.0p) will be paid on 10th November 2008 to those shareholders on the register at the close of business on 3rd October 2008.

Notes to the financial statements

20 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 bond £m | Adjusted net assets £m |
|--|------------------|--|---|--|------------------------------|
| At 30th June 2008 | 1,682.7 | 11.4 | (9.1) | 21.2 | 1,706.2 |
| Minority interests | (55.4) | (1.0) | – | – | (56.4) |
| Attributable to equity shareholders | 1,627.3 | 10.4 | (9.1) | 21.2 | 1,649.8 |
| Net asset value per share (p) | 1,669 | 12 | (9) | 21 | 1,693 |
| Net asset value per share attributable to equity shareholders (p) | 1,614 | 11 | (9) | 21 | 1,637 |
| At 30th June 2007 | 1,933.1 | 0.3 | (13.0) | 22.1 | 1,942.5 |
| Minority interests | (57.5) | – | – | – | (57.5) |
| Attributable to equity shareholders | 1,875.6 | 0.3 | (13.0) | 22.1 | 1,885.0 |
| Net asset value per share (p) | 1,922 | – | (13) | 22 | 1,931 |
| Net asset value per share attributable to equity shareholders (p) | 1,865 | – | (13) | 22 | 1,874 |
| At 31st December 2007 | 1,841.9 | 13.1 | (1.2) | 21.6 | 1,875.4 |
| Minority interests | (59.9) | (1.7) | – | – | (61.6) |
| Attributable to equity shareholders | 1,782.0 | 11.4 | (1.2) | 21.6 | 1,813.8 |
| Net asset value per share (p) | 1,829 | 13 | (1) | 21 | 1,862 |
| Net asset value per share attributable to equity shareholders (p) | 1,770 | 11 | (1) | 21 | 1,801 |

The number of shares at 30th June 2008 was 100,807,146 (30th June 2007: 100,573,801; 31st December 2007: 100,703,194).

The net asset values per share are shown in the table both for the assets under control by the group and of its interest in these assets, i.e. after deduction for the minority interest share. Adjustments are made for the deferred tax on the revaluation surplus and both the post tax fair value of derivative financial instruments and the adjustment to the secured bond are excluded, on the basis that these amounts are not relevant when considering the group as an ongoing business.

At 30th June 2007, the majority of the deferred tax on the revaluation surplus related to a property which was disposed of shortly after the balance sheet date crystallising the tax at that date. Therefore, the deferred tax on this property has not been added back to arrive at the adjusted net assets.

21 Exceptional cash flows

The half year to 30th June 2007 and the year to 31st December 2007 contained exceptional finance costs of £3.3m, which was the cost of acquisition finance (see note 6).

The half year to 30th June 2007 and the year to 31st December 2007 also contained the payment of exceptional administration costs of £17.3m and £16.0m respectively, which relate to costs incurred by London Merchant Securities plc prior to the acquisition and accrued at 31st January 2007 in the fair value balance sheet.

22 Post balance sheet events

Since the 30th June 2008, the group has completed the purchase of a freehold property for £11.0m, excluding costs. In addition, the group has completed the disposal of four properties for a total of £14.4m, excluding costs. The estimated loss on these disposals is £0.1m.

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