
EFFECTIVE

PERFORMANCE

RELATIONSHIPS

EFFECTIVE RELATIONSHIPS

Strong relationships in all parts of our business are an important component of our continued success and assist us in adding value to the portfolio.

Tenants

We understand our tenants' requirements and maintain communication from the very start of their interest in a property and throughout their occupation, building extremely close relationships.

A reversionary rental profile with low passing rents is a key characteristic of our portfolio, providing prospects for income growth and value enhancement. We aim to capitalise on these opportunities and work with our tenants to accommodate expansion, contraction and lease regears wherever possible. During 2012 we regeared leases at 1 Oliver's Yard and 8 Fitzroy Street, increasing the rent and, at Oliver's Yard, the length of the leases. This has led to strong increases in the respective value of these properties and greater security of income and tenure for both Derwent London and our tenants.

1 Oliver's Yard EC2

Sage Publications (40,300 sq ft/3,740m²)

- Leases extended from two to seven years
- Annual stepped increases introduced taking the rent from £1.0m (£25 per sq ft) to £1.4m (£36 per sq ft)
- December 2011 ERV (£28.50 per sq ft)

TelecityGroup (68,700 sq ft/6,380m²)

- Leases extended from five to 25 years
- Rent increases introduced taking rent from £1.8m to £2.3m (£45 per sq ft on best space) and 2.5% compound increases every five years thereafter

Resulting valuation increase

17%

2

1

3

8 Fitzroy Street W1

- Let to Arup (148,000 sq ft/13,750m²) until 2033
- £6.2m pa (£45 per sq ft on a typical floor)

Before

- Five-yearly upward-only rent reviews

After

- Annual stepped increases to £8.4m pa (£60 per sq ft) by 2021
- Upward only rent review in 2021
- Thereafter rent increases annually by 2.5%
- Rental income by expiry of at least £11.0m pa (£80 per sq ft)

Resulting valuation increase

5%

1. 1 Oliver's Yard EC2: View from City Road

2. 1 Oliver's Yard EC2: New upgraded reception

3. 8 Fitzroy Street W1: Atrium

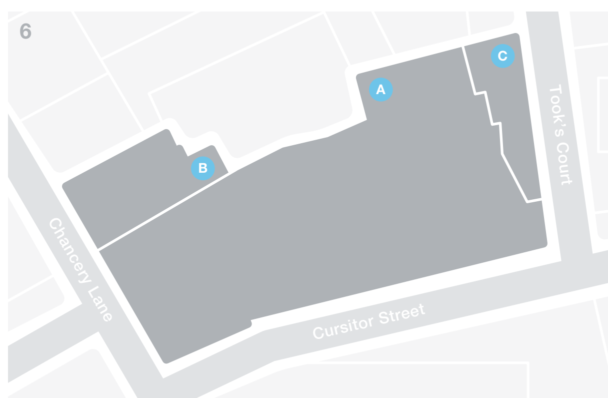
4. 40 Chancery Lane WC2: Proposed street level view

Unique opportunities

We treat each building as a unique opportunity. While our approach to every property is consistent, the solution for each will be different. Through innovative ideas we look to add floorspace and thereby value.

We keep in close contact with the freeholders of our leasehold properties and discuss the plans for these buildings to ensure that the maximum value is extracted.

Three developments were unlocked in the past year, all of which involved lengthy negotiations with the respective freeholders to achieve the optimal solution.



40 Chancery Lane WC2

The development value of this site was unlocked in February 2012 through a regear with our freeholder, Colville Estates. The existing buildings have been demolished and the scheme is scheduled to be delivered at the end of 2014 incurring capital expenditure to complete of £34m.

70,600SQ FT to 100,000SQ FT

42% uplift

p44

		Previous ownerships		**Current ownerships**	
	Area sq ft	Colville Estates	Derwent London	Colville Estates	Derwent London
40-43 Chancery Lane (A)	53,800	Freehold	17-year leasehold expiring 2029		
44-45 Chancery Lane (B)	9,700	Freehold	No interest	Freehold	128-year leasehold
20-21 Tooks Court (C)	7,100	No interest	Freehold		New ground rent 18% – estimated £0.95m
	70,600				

55-65 North Wharf Road W2

Planning permission was secured for these leasehold offices near Paddington station in January 2008 to provide 240,000 sq ft (22,300m²) of offices and 73,000 sq ft (6,800m²) of residential accommodation and retail space.

Derwent London has entered into an option agreement with the freeholder and the head leaseholder.

On exercise of the option, the freeholder will grant us a 999-year lease over the site of the office element and surrounding public realm. At the same time the freeholder will grant the head leaseholder a 999-year lease over the site of the residential element. We will pay a ground rent of 2.5% of the rent of the office element and will undertake to build the basement box of the combined office and residential elements.

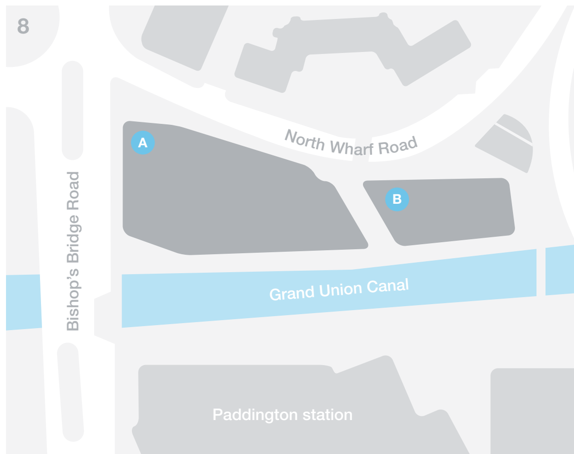
The head leaseholder will pay a £5m contribution towards the cost of this box. Once this has been completed we will build the offices (building A below) and the head leaseholder will be responsible for the residential element (building B below).

This option agreement enables the redevelopment of 55-65 North Wharf Road. The existing buildings of 78,000 sq ft (7,250m²) are currently fully occupied under leases which have rolling breaks from June 2014.

78,000SQ FT to 240,000SQ FT

208% uplift


7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5. 40 Chancery Lane WC2: Proposed courtyard

6. 40 Chancery Lane WC2: Site plan

7. 55-65 North Wharf Road W2: Proposed new office building

8. 55-65 North Wharf Road W2: Site plan

9. 1-5 Grosvenor Place SW1 Existing building

1-5 Grosvenor Place SW1

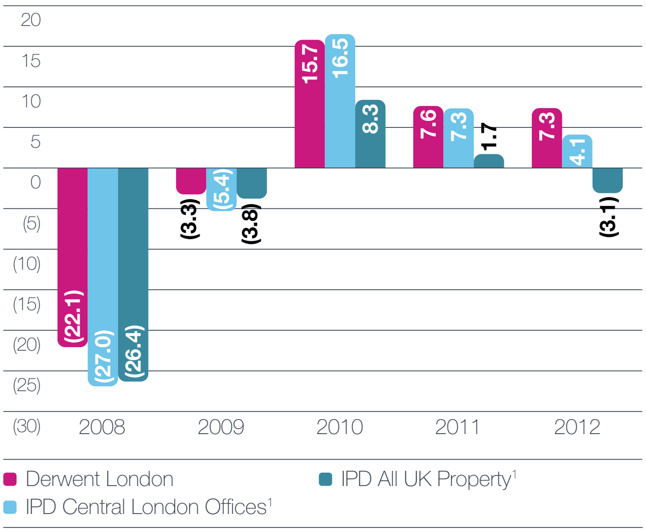
Originally built in the 1960s, these 168,000 sq ft (15,600m²) buildings were comprehensively refurbished in the late 1990s/early 2000s. In 2012, Derwent London and Grosvenor announced a joint venture to work towards the redevelopment of the entire site. The Group restructured its headleases into a new 150-year term and sold 50% of this interest to Grosvenor for £60m. The existing buildings occupy an under-utilised flagship site of 1.5 acres and offer a unique opportunity to undertake a substantial mixed-use redevelopment in a highly prominent location. Whilst we progress redevelopment plans, we are maintaining income through short-term, flexible lettings. We have appointed advisors with our joint venture partner, Grosvenor, and are working up a development plan with a view to submitting the planning application in the next 12 months.

PROPERTY REVIEW VALUATION

The strong levels of investment in London's commercial property market, together with good demand for space and improving central London office rents, presented a positive backdrop to the valuation.

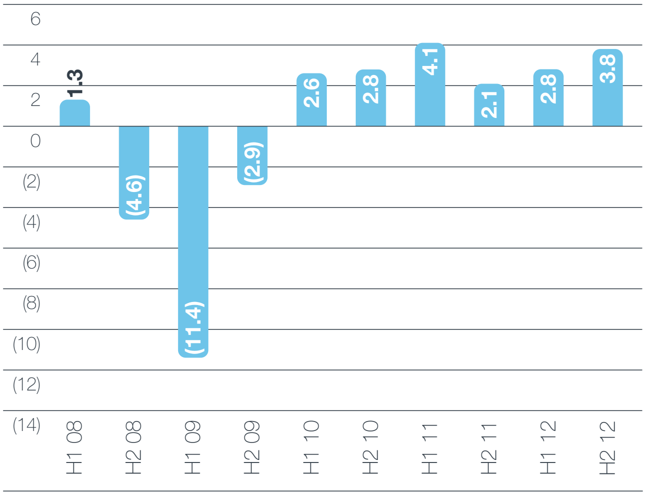
Nigel George
Executive Director

Valuation performance %



¹ Quarterly Index

Rental value growth¹ %



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

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

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

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

Portfolio statistics – valuation

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

[1] Properties held throughout the year

7.3%
underlying valuation increase

6.7%
increase in underlying estimated rental value

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

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

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

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

"We believe our prospects are good and look forward to the future with confidence."

John Burns
Chief Executive

PROPERTY REVIEW
PORTFOLIO MANAGEMENT

Our mid-market offices in the West End and City borders continue to prove attractive to tenants, as evidenced by another excellent year for lettings in 2012.

Paul Williams
Executive Director

Letting activity

We let 340,300 sq ft (31,610m²) at an annual rent of £13.3m and an average premium of 7.6% to the December 2011 ERV. For comparison, in 2011, when we had more space available, we concluded 495,700 sq ft (46,050m²) of lettings at an annual rent of £16.7m.

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

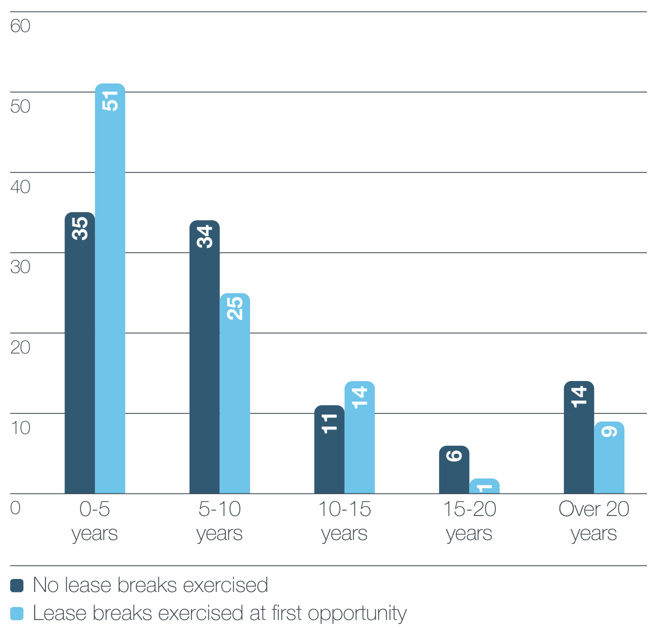
Annual income from lettings in the first half of the year totalled £8.9m, and £4.4m in the second half. Overall lettings in the second half were settled at an average premium of 10.3% to the June 2012 ERV and for open market lettings at a 12.3% premium. On the basis of our most recent activity and ongoing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

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

The principal transactions in 2012 were as follows:

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

Profile of rental income expiry[1] %



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

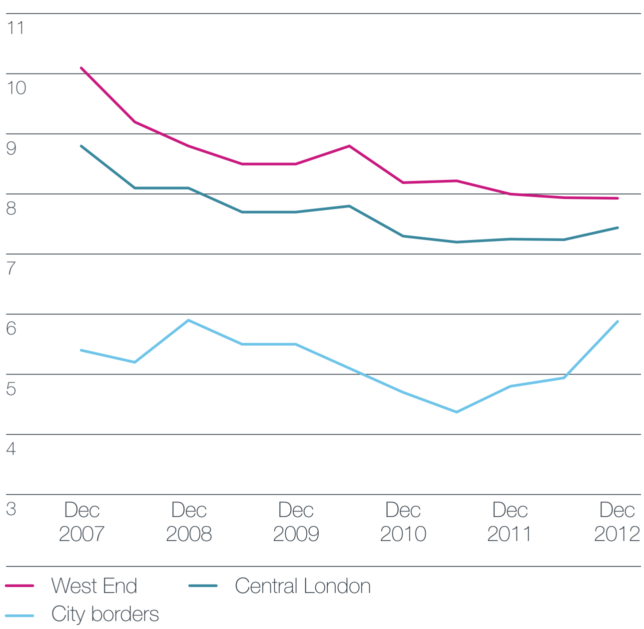
340,300 sq ft
of lettings at

£13.3m pa

Rental income profile

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

Average unexpired lease length[1] Years



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

Lettings

7.6%

above December 2011 ERV

- **4 & 10 Pentonville Road N1** Within two months of practical completion, 47,700 sq ft (4,430m²) of this 55,000 sq ft (5,110m²) building was let for 12 years to Ticketmaster at £45 per sq ft (£484 per m²) on the top floor and £42.50 per sq ft (£457 per m²) on a typical mid-level floor, giving a total rent of £1.9m pa. The completion of this development, opposite our Angel Building where rents of £42 per sq ft (£452 per m²) were achieved in 2011, continues the regeneration of this increasingly vibrant part of Islington.
- **Buckley Building EC1** Unilever has pre-let 21,100 sq ft (1,960m²) of office space paying £45 per sq ft (£484 per m²) on the ground floor and £40 per sq ft (£431 per m²) on the lower ground to give a total rent of £0.9m pa, 27% above the 30 June 2012 ERV of this space. The lease is for 12 years with a tenant's break at year six on payment of a 12 month rent penalty. A rent free period equivalent to 12 months was granted, with an additional six months if the break is not exercised.

  We are formally launching the marketing of the remaining 64,000 sq ft (5,900 m²) in this building in April 2013, following completion of the project.
- **1-2 Stephen Street W1** BrandOpus is more than tripling its occupation in our portfolio and will relocate to 18,300 sq ft (1,700m²) in Phase 1 of the 1-2 Stephen Street refurbishment from 5,000 sq ft (460m²) at the nearby Charlotte Building W1. It took 15,400 sq ft (1,430m²) in 2012 and an additional 2,900 sq ft (270m²) in February 2013. It will occupy ground and lower ground floor offices under a 10-year lease, paying a rent of £0.8m pa, representing £52.50 per sq ft (£565 per m²) on the prime space.
- **Johnson Building EC1** Existing media tenant Grey took an additional 11,100 sq ft (1,030m²) on a nine-year lease at £45 per sq ft (£485 per m²) or £0.50m pa, taking its total presence in the building to 61,100 sq ft (5,680m²).

PROPERTY REVIEW PORTFOLIO MANAGEMENT
CONTINUED

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

Asset management

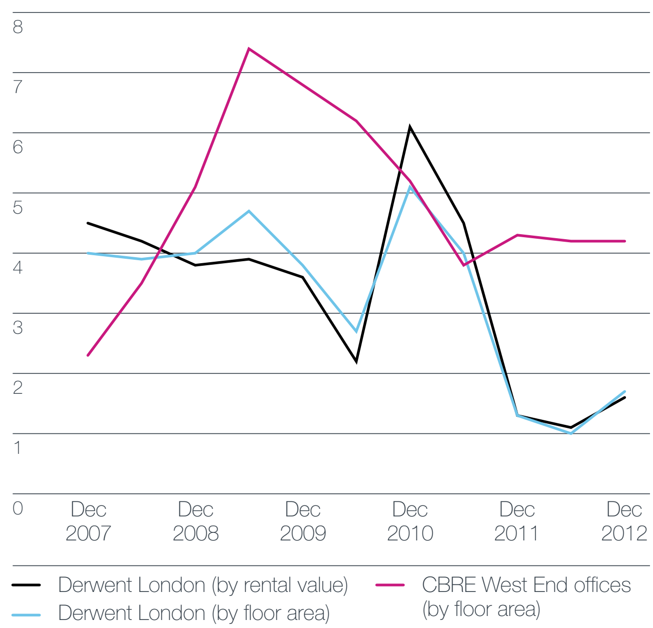
We continued to see strong tenant retention in 2012. During the year £14.7m pa of rental income was subject to lease expiries and breaks. After excluding space taken back for identified projects and disposals, representing £4.2m pa, 81% of this income was retained and 5% re-let during 2012.

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

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

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

Five-year vacancy trend %



81%
of income subject to breaks and expires retained

Portfolio statistics – rental income

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

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

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

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

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

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

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

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

> "Derwent has proved an extremely flexible landlord during the 14 years we have been at Grosvenor Place, enabling us to take on additional space as we have grown."

Jupiter Fund Management
1-5 Grosvenor Place SW1

PROPERTY REVIEW
INVESTMENT ACTIVITY

Our purchases in 2012 reflect our strategy of buying income-producing assets off low capital values with medium-term refurbishment opportunities. Our 2012 disposals were either non-core properties or sold to facilitate future development.

David Silverman
Executive Director

Acquisitions

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

The main acquisitions in 2012 were:

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

Average acquisition cost

£365 per SQ FT

Riverwalk House[1]

75%

valuation uplift over previous three years

[1] Including 232-242 Vauxhall Bridge Road and excluding profit overage

Disposals

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

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

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

PROPERTY REVIEW PROJECTS

At the year end the Group was on site at six major projects totalling 495,000 sq ft and during the year was granted planning permissions totalling 655,000 sq ft.

Simon Silver
Executive Director

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

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

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

4 & 10 Pentonville Road N1

60%

return on development cost

Projects completed in 2012

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

p38

Projects under construction

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

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

Other projects

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

Projects starting in 2013

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

- **80 Charlotte Street W1**

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

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

- **Queens, 96-98 Bishop's Bridge Road W2**

  This 21,400 sq ft (1,990m²) residential scheme in Westbourne Grove comprises 16 units and 2,700 sq ft (250m²) of retail space. Having received planning permission in 2012, work has now started.

- **73 Charlotte Street W1**

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

Projects for 2014 and beyond
The Group has five further projects with planning permission with a total proposed net lettable area of 0.9 million sq ft (86,000m²) and a similar level of projects under appraisal, providing additional opportunities to grow the business. We have made important progress on the following projects:

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

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

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

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

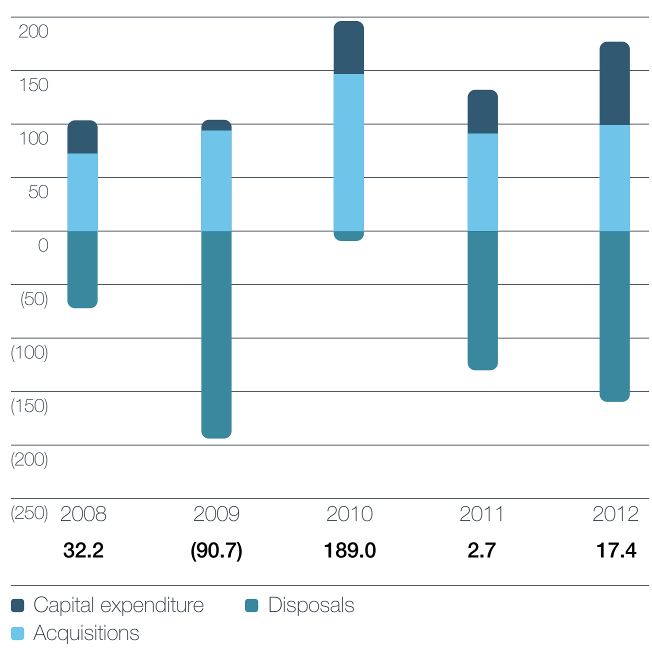
  This site represents one of the best locations within Paddington Basin yet to be developed and will provide a striking architectural addition to the regeneration of the wider area. It is directly opposite one of the entrances to the National Rail, Crossrail and London Underground services at Paddington.

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

- **1-5 Grosvenor Place SW1**
  In March 2012, Derwent London and Grosvenor announced a joint venture and headlease regear at 1-5 Grosvenor Place. This collaboration unlocks a major prime redevelopment opportunity of over 260,000 sq ft (24,000m²) at this unique 1.5 acre (0.6 hectare) site. Working with Grosvenor a professional advisory team has been assembled, with the expectation of submitting a planning application for this mixed-use redevelopment including a hotel, residential and offices within the next year. The joint venture partners are working towards choosing an operator for the hotel element from the current shortlist over the next few months. In the meantime the property is almost fully let on flexible leases.

We have started studies on our recent acquisitions at Prescot Street E1 and Berners Street W1 to formulate our longer term plans for these buildings.

Net investment £m



"65% of London professionals are convinced they would work harder, put in more overtime and generally do a better job if their office environments were more comfortable and more desirable."

De Vono 2012

Project summary

2013-2014

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

2015 onwards

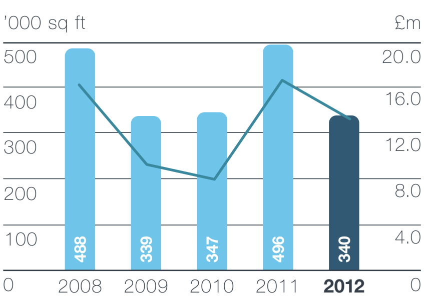
	Existing net income per annum £m	Pre-scheme area m²	Proposed area m²	Earliest possession Year	Comment
White Collar Factory EC1	0.8	11,500	26,800	2013	Consented – offices
Jaeger House, Broadwick Street W1	0.8	2,300	c.2,800	2013	Appraisal studies
Wedge House SE1	0.3	3,600	7,400	2013	Consented – offices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

[1] Part building

CONSISTENT DELIVERY

Throughout the economic turbulence of the past five years our business model has proved to be resilient, we have adhered to our strategy and consistently delivered against it. This is demonstrated in our performance when compared to our peers and a variety of industry measures.

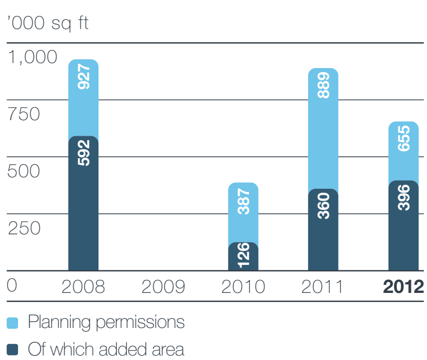
Lettings



Since 2008 we have let over 2.0m sq ft producing annual income of £64m. This represents more than a third of the current portfolio and more than half of the current year's income. This activity has driven the EPRA vacancy rate down to 1.6% by the end of 2012 with an average vacancy rate of 3.1% over the period.

p38

Planning permissions

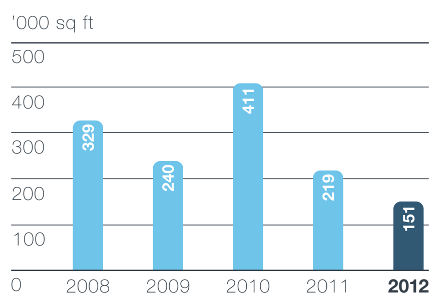


Planning permissions totalling 2.9m sq ft have been granted in the past five years. To put this in context, the current portfolio is 5.4m sq ft. 495,000 sq ft of major projects were underway at the end of 2012 and 2.2m sq ft is yet to be commenced.

The largest of these unbuilt permissions is 80 Charlotte Street which will commence towards the end of 2013 creating 385,000 sq ft of modern space in our Fitzrovia village.

p44, p50

Projects completed



From the Johnson Building to the Charlotte Building to the Angel Building and into the future with 80 Charlotte Street we are continually learning from past experience in terms of innovation, design, sustainability and tenant requirements.

Over £330m of capital expenditure was incurred from 2008 to 2012 and we plan to invest around £350m over the next three years.

p44

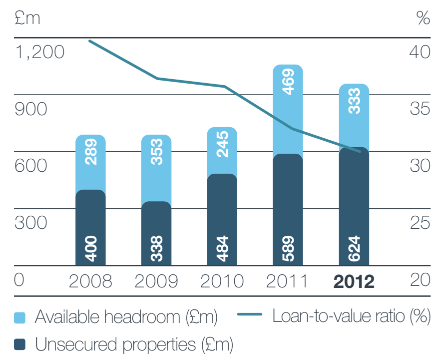
66.4%

five-year total shareholder return compared to our benchmark of (18.4)%

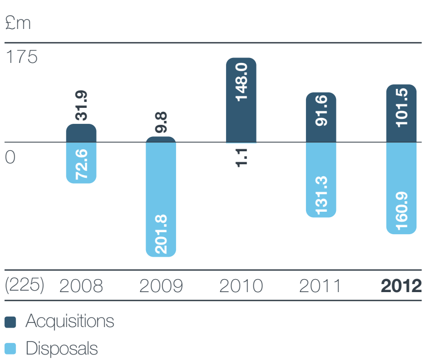
“As a result of our financial resilience during the past five years we have been able to progress and accelerate our development programme. Significant planning permissions have been obtained and we have delivered a pipeline of value-enhancing projects.”

John Burns
Chief Executive Officer

Financing



Investment activity



Following the merger with London Merchant Securities in 2007 the Group undertook a number of significant disposals. Since then, in addition to the investment in the enlarged development programme, we have been active in the recycling of mature and non-core properties in our portfolio and re-investing the proceeds in capital expenditure and acquisitions.

p42

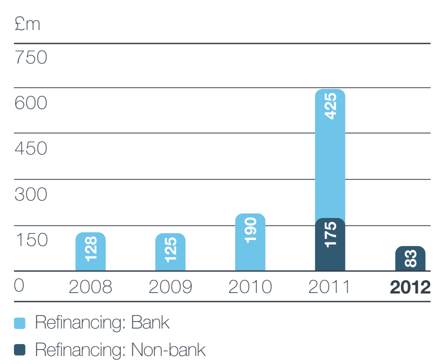
Performance

	Five-year figures
Total return	**15.5%**
Benchmark	(55.2)%
Total property return	**26.6%**
IPD Central London Offices Index	16.2%
IPD All UK Property Index	2.7%
Total shareholder return	**66.4%**
FTSE All-Share Real Estate Investment Trust Index	(18.4)%

With consistently strong results over the past five years we have exceeded all of our KPI return measures.

Throughout the financial downturn we have maintained a low LTV ratio in absolute terms and relative to our peers. Consequently we avoided the deeply discounted rights issues to which many listed property companies had to resort during this period.

p26



This period has been notable for a lack of generally available finance for many companies. For a small number of chosen borrowers, of which Derwent London is one, funds have been accessible on reasonably attractive terms while, for others, the facilities are either unavailable or are priced at a significant premium.

£1.1bn of debt has been refinanced since 2008 with £258m financed with non-bank sources.

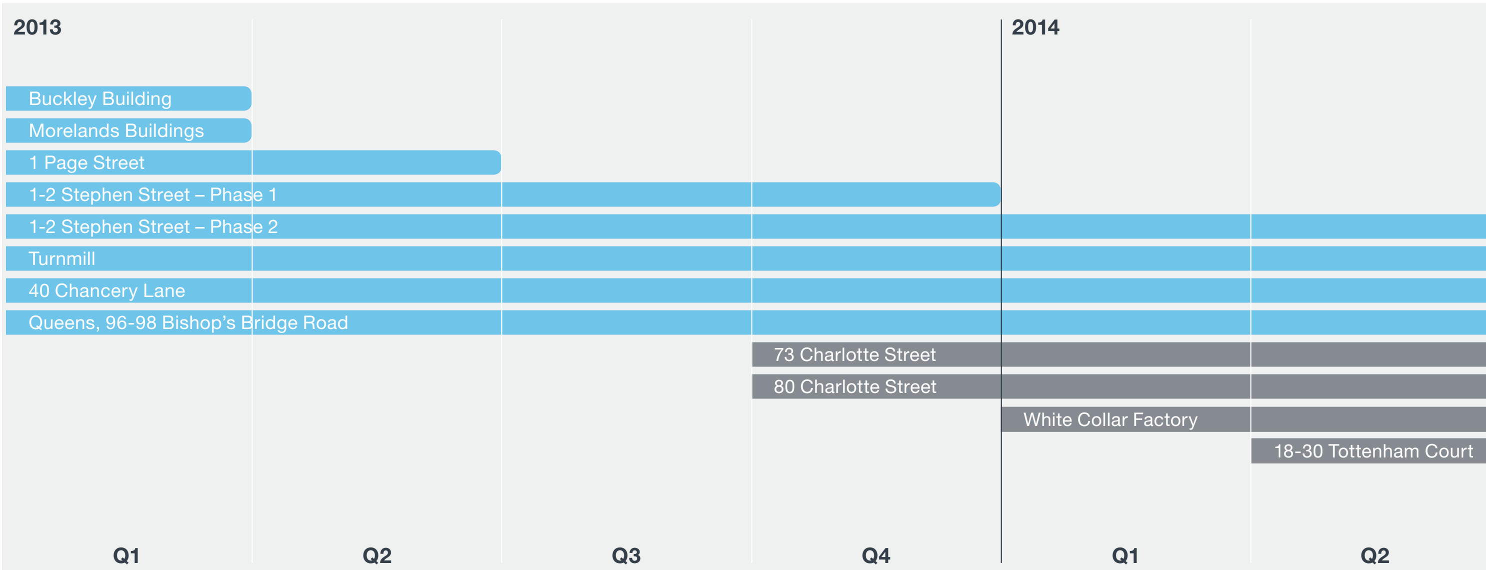
We have maintained a significant level of available headroom under our financing facilities so that we are able to act quickly and decisively when opportunities arise. In order to retain flexibility we have also preserved a significant level of uncharged property.

We maintain a close dialogue with our existing relationship banks as well as the wider investor and lender community.

p58

2.9m SQ FT
of planning permissions since 2008

DEVELOPMENT PIPELINE



Buckley Building EC1

Village: Clerkenwell
Type: Offices
Proposed size: 85,000 sq ft (7,900m²)
Completion date: 2013
Architect: Buckley Gray Yeoman
Letting status: 25% pre-let
Capital expenditure to complete: £3m

The refurbishment of this old industrial building, infilling the atrium to create an additional 13% of office space, is nearing completion. The entrance has been located to a more prominent position on Clerkenwell Green and the ground floor façade has been remodelled. 21,100 sq ft (1,960m²) has been pre-let to Unilever.

Morelands Buildings EC1

Village: Clerkenwell
Type: Offices/Retail
Scheme size: 27,000 sq ft (2,510m²)
Completion date: 2013
Architect: AHMM
Letting status: 66% pre-let
Capital expenditure to complete: £2m

Home to a variety of creative industries, Morelands is a combination of former warehouses and workshops, redesigned to create a unified building, surrounding a U-shaped courtyard. Following a headlease extension, this multi-let building has undergone a rolling refurbishment. The latest phase of 27,000 sq ft (2,510m²) includes an extension to create a penthouse office floor.

1 Page Street SW1

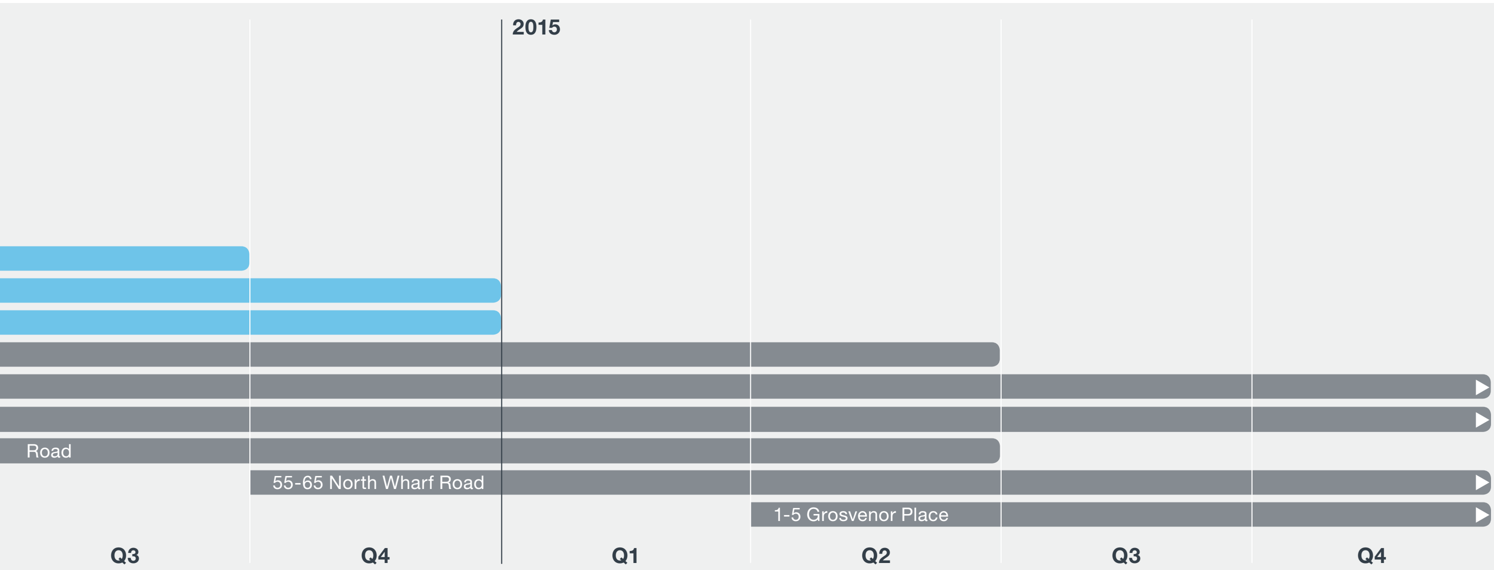
Village: Victoria
Type: Offices
Proposed size: 127,000 sq ft (11,800m²)
Completion date: 2013
Architect: PLP Architecture
Letting status: 100% pre-let
Capital expenditure to complete: £15m

Derwent London acquired 1 Page Street in March 2011 and pre-let the entire building to Burberry in February 2012. The regeneration of this building has increased the floor area by 8% whilst the previous glazed exterior has been replaced with an elegant masonry façade.

1-2 Stephen Street W1 Phases 1 and 2

Village: Fitzrovia
Type: Offices
Scheme size: 86,000 sq ft (7,990m²)
Completion date: 2013/2014
Architect: ORMS
Letting status: 21% pre-let
Capital expenditure to complete: £18m

Our plans to give this property a new identity, transforming the building, are progressing well. Phase 1 is reconfiguring the office entrance with a curved glass and metal screen façade with a canopy blade overhead and creating 23,000 sq ft (2,140m²) of ground and lower ground floor offices. Phase 2 is underway and consists of the refurbishment of 63,000 sq ft (5,850m²) on the upper floors to provide better quality space.



Turnmill EC1

Village: Clerkenwell
Type: Offices
Proposed size: 70,000 sq ft ($6,500m^2$)
Completion date: 2014
Architect: Piercy & Co
Capital expenditure to complete: £19m

This new office development will occupy a prominent corner site near Farringdon station, which is currently being redeveloped as a Crossrail interchange. It will be constructed out of unique Kolumba brick providing an exceptional top floor with terraces and spectacular views, as well as a 70% increase in floorspace from the previous building.

40 Chancery Lane WC2

Village: Holborn
Type: Offices/Retail
Proposed size: 100,000 sq ft ($9,300m^2$)
Completion date: 2014
Architect: Bennetts Associates
Capital expenditure to complete: £34m

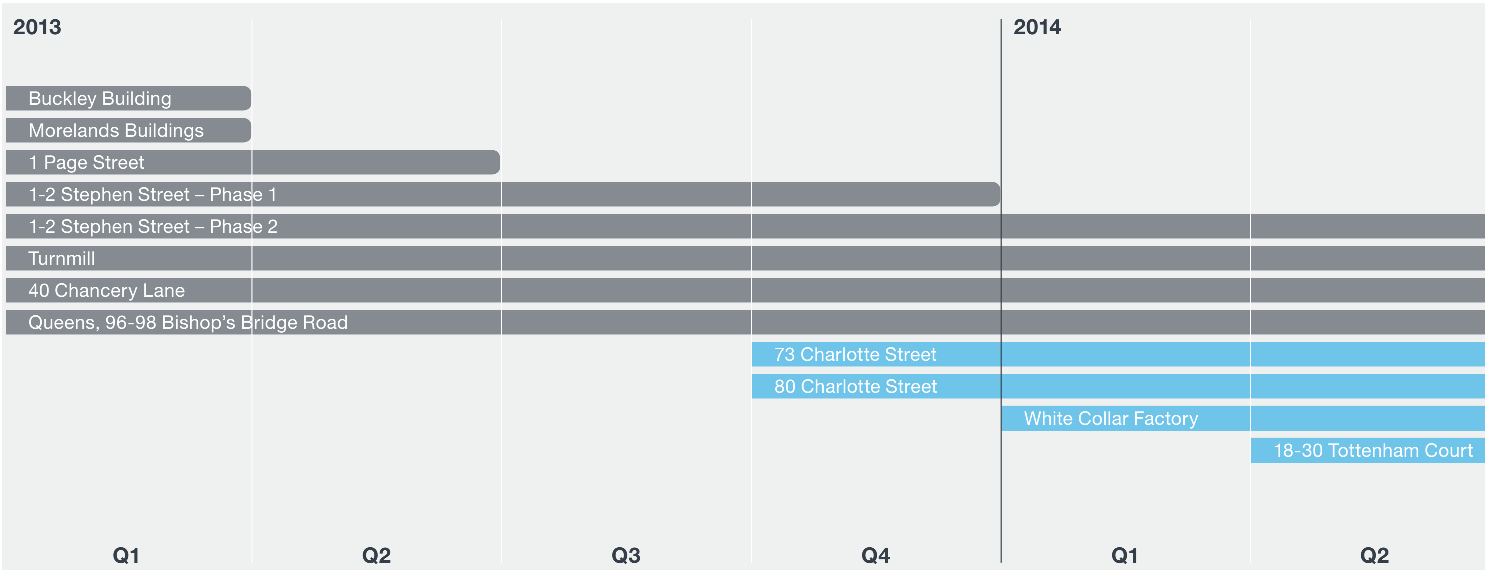
Having regeared the headlease, we have begun redevelopment of this large prime Midtown corner site to create a striking new six-storey office building. The development will include a new retail unit and a publicly accessible landscaped courtyard that will bring natural daylight to the office floors.

Queens W2

Village: Paddington
Type: Residential/Retail
Proposed size: 21,400 sq ft ($1,990m^2$)
Completion date: 2014
Architect: Stiff + Trevillion
Capital expenditure to complete: £12m

This prominent site, home of the former Queens Cinema, is situated on the corner of Bishop's Bridge Road and Queensway. The proposals retain the art deco façade and will create 16 high-quality apartments and 2,700 sq ft ($250m^2$) of ground floor retail space. A notable element of the scheme is the provision of a new public space on the opposite side of Queensway.

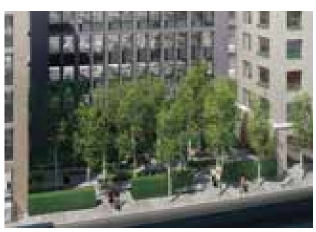
DEVELOPMENT PIPELINE
CONTINUED



73 Charlotte Street W1

Village: Fitzrovia
Type: Residential/Offices
Proposed size: 15,500 sq ft ($1,440m^2$)
Completion date: 2015
Architect: DSDHA
Capital expenditure: £9m

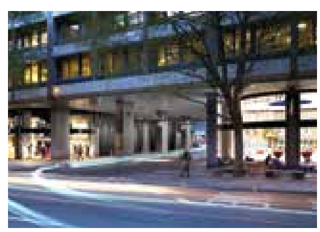
In November 2012 we received approval for the redevelopment of 73 Charlotte Street to provide 11 residential units, two of which are affordable, and 1,900 sq ft ($180m^2$) of offices. We expect to start work on site after the receipt of vacant possession in the second half of 2013.



80 Charlotte Street W1

Village: Fitzrovia
Type: Offices/Residential/Retail
Proposed size: 385,000 sq ft ($35,800m^2$)
Completion date: 2016
Architect: Make
Capital expenditure: £147m

The regeneration of 80 Charlotte Street will be Derwent London's largest scheme to date. The main development occupies a 1.4 acre island site in the heart of our Fitzrovia estate and together with two nearby properties will provide 312,000 sq ft ($28,980m^2$) of offices and 49,500 sq ft ($4,600m^2$) of residential units as well as retail space of 23,500 sq ft ($2,180m^2$). The landmark building will include a "pocket park" based on the New York Paley Park concept. This scheme will augment the wider regeneration and improvement of the Fitzrovia village.



18-30 Tottenham Court Road W1

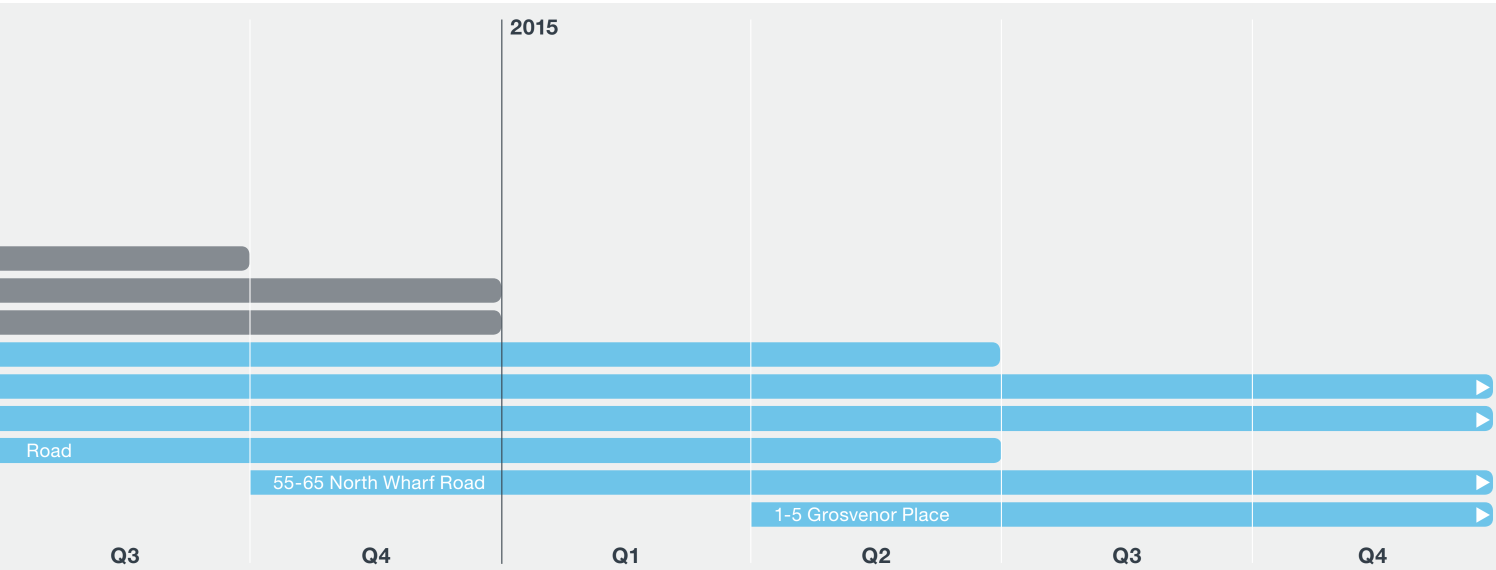
Village: Fitzrovia
Type: Retail
Scheme size: 41,000 sq ft ($3,810m^2$)
Completion date: 2015
Architect: ORMS
Capital expenditure: £11m

In October 2012 we received permission to extend the retail units at 18-30 Tottenham Court Road where there are lease breaks in 2014, to create a new and improved double-height frontage for the existing colonnade and to convert basement car parking to retail. This project, part of the regeneration of 1-2 Stephen Street, will increase the retail space by 70% and provide modern units on this busy and improving shopping street.

White Collar Factory City Road EC1

Village: Old Street
Type: Offices
Proposed size: 289,000 sq ft ($26,800m^2$)
Architect: AHMM
Capital expenditure: c£100m

This scheme, facing onto the Old Street roundabout, includes a 16-storey office building incorporating our White Collar Factory concept. This will include high ceilings, good daylight and natural ventilation with opening windows that negate the need for full air-conditioning. This leads to lower building and fit out costs as well as lower running costs and a healthier working environment. Construction of a working prototype, built to demonstrate the attributes of the scheme, has recently been completed and we now intend to move this project forward on a speculative basis.

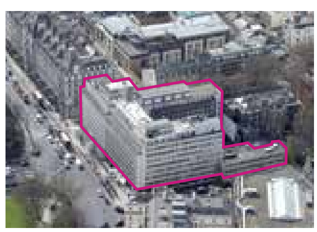


55-65 North Wharf Road W2

Village: Paddington
Type: Offices/Residential
Proposed size: 240,000 sq ft (22,300m²)
Architect: Fletcher Priest
Capital expenditure: c£100m

In January 2013, Derwent London entered into an option agreement with the freeholder and head leaseholder of 55-65 North Wharf Road. This unlocks the opportunity to develop the 240,000 sq ft (22,300m²) of offices, with the head leaseholder developing the associated 73,000 sq ft (6,800m²) of residential accommodation and retail space.

The scheme, which could commence from 2014, represents one of the last major sites within Paddington Basin to be developed and will provide a striking architectural addition to the area.



1-5 Grosvenor Place SW1

Village: Belgravia
Type: Mixed
Proposed size: 260,000 sq ft+ (24,200m²)
Architect: Hopkins

In March 2012 we announced that we had agreed a joint venture over 1-5 Grosvenor Place with Grosvenor. The Group restructured its headleases into a new 150-year term and sold 50% of this interest to Grosvenor. The existing buildings occupy an underutilised flagship site of 1.5 acres at Hyde Park Corner. Professional advisors have been appointed by the joint venture partners and detailed proposals for the site, likely to include offices, residential space and a luxury hotel are being drawn up with a view to submitting a planning application within the next year.

FINANCE REVIEW

In 2012, EPRA net asset value per share increased by 10.9%, EPRA profit before tax rose slightly despite the increase in development activity and all our planned refinancing was completed.

Damian Wisniewski
Finance Director

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

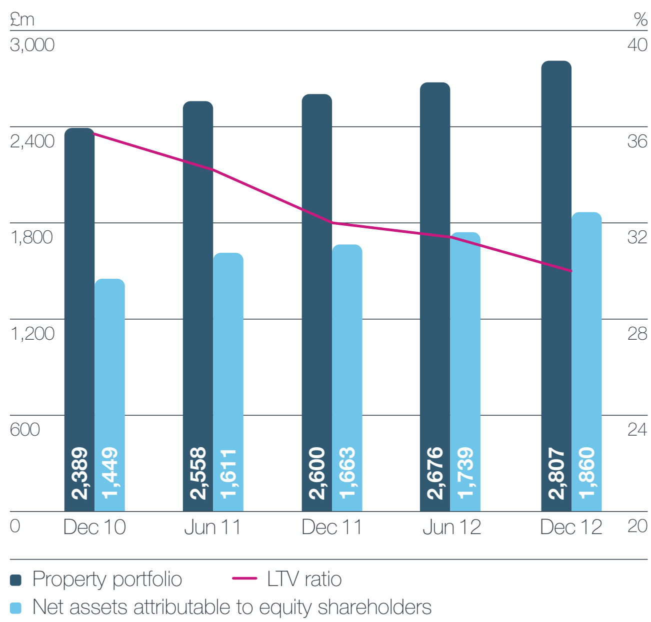
The calendar year 2012 was, in many respects, a significant one for London. Sterling was seen as a relative safe haven while many of the other European economies were under extreme pressure. Notwithstanding the lack of overall economic growth in the UK and the domestic tension caused by a deficit reduction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

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

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

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

Investment property, net assets and gearing



10.9%
increase in EPRA NAV

Net asset value

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

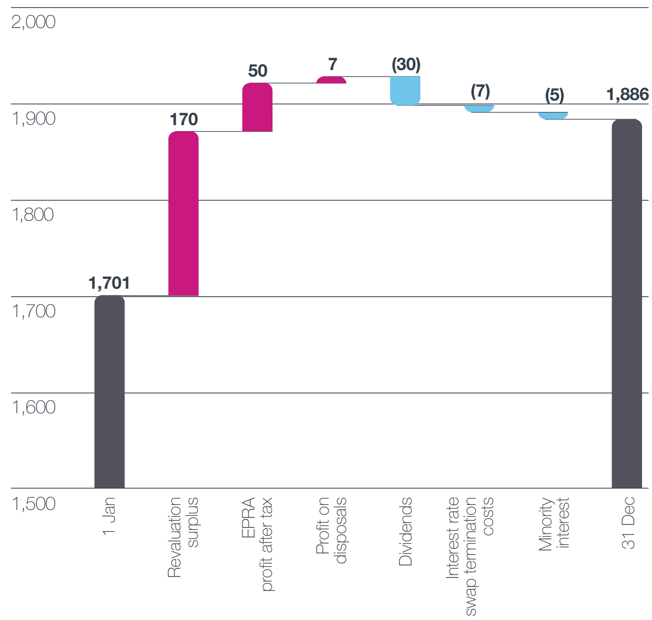
The main components of the rise in NAV per share were as follows:

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

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

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

EPRA net asset value per share p



2012	**1,701**	**170**	**50**	**7**	**(30)**	**(7)**	**(5)**	**1,886**
2011	1,474	169	51	36	(25)	–	(4)	1,701

EPRA net asset value

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

Income statement

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

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

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

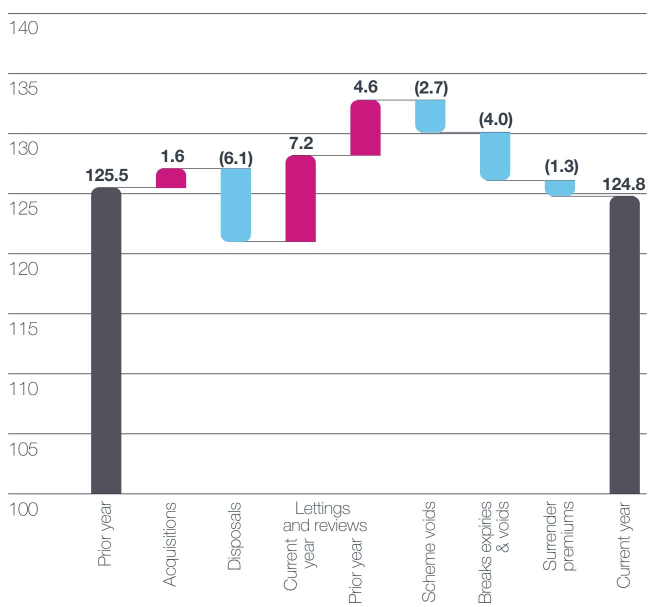
Property outgoings overall were £10.3m, a 5.1% increase from the previous year, part of which is due to the higher ground rent paid at 1-5 Grosvenor Place SW1 following the regear. The prior year also benefited from £1.6m of rates credits; in 2012 the recovery of overpaid rates was £0.3m. Surrender premiums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

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

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

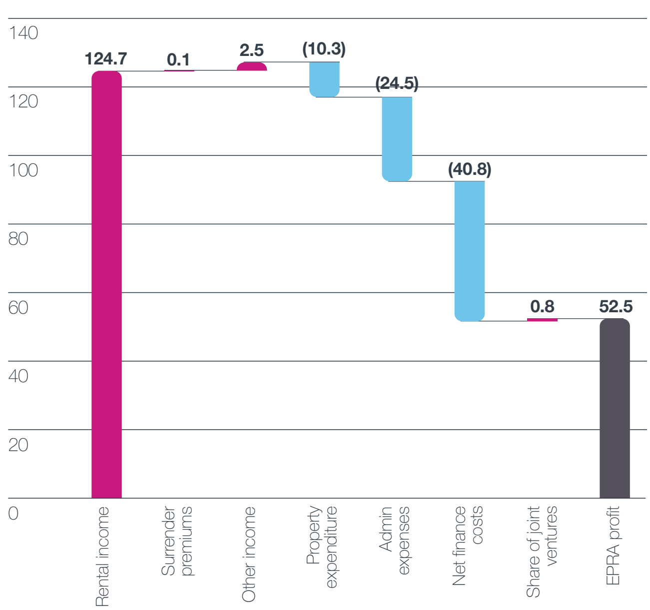
Net finance costs fell to £40.8m from £43.2m in the prior year due partly to a higher amount capitalised on projects, £4.9m against £2.2m last year. Interest costs have fallen by £2.3m compared to the previous year, offset by an increase of £2.5m in charges for arrangement and non-utilisation fees.

Gross property income £m



2012	**125.5**	**1.6**	**(6.1)**	**7.2**	**4.6**	**(2.7)**	**(4.0)**	**(1.3)**	**124.8**
2011	119.4	7.2	(1.6)	6.0	4.3	(4.4)	(6.2)	0.8	125.5

EPRA profit £m



2012	**124.7**	**0.1**	**2.5**	**(10.3)**	**(24.5)**	**(40.8)**	**0.8**	**52.5**
2011	124.1	1.4	2.0	(9.8)	(22.8)	(43.2)	0.6	52.3
Variance	0.6	(1.3)	0.5	(0.5)	(1.7)	2.4	0.2	0.2

EPRA like-for-like net rental income

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

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

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

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

8.2%

increase in EPRA like-for-like net rental income

Taxation

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

FINANCE REVIEW
CONTINUED

Debt facilities

	£m	December 2012 £m	Maturity
6.5% secured bonds		175	March 2026
3.99% secured loan		83	October 2024
2.75% unsecured convertible bonds		175	July 2016
Overdraft		2.5	On demand
Committed bank facilities			
Term	28		June 2018
Term/revolving credit	90		December 2017
Revolving credit	150		January 2017
Revolving credit	150		January 2017
Revolving credit	125		November 2015
Revolving credit	100		April 2015
Term/revolving credit	125		April 2014
		768	
Total debt facilities		**1,203.5**	

All facilities are secured unless noted otherwise

Financing

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

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

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

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

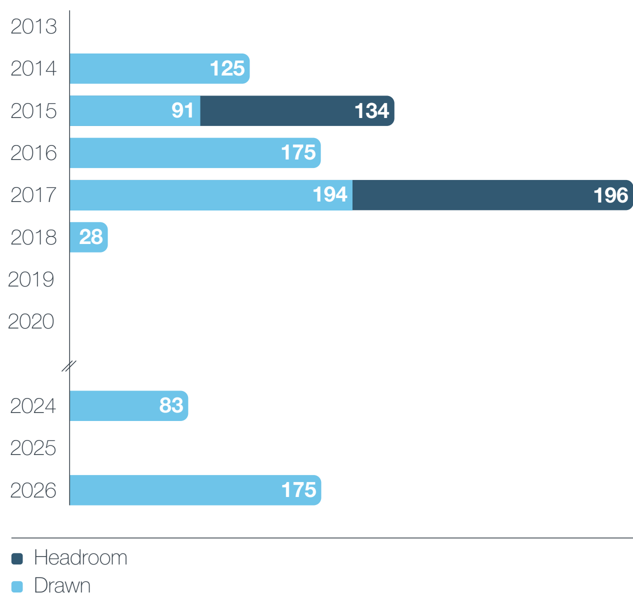
Proportion of non-bank debt

50%

"With low levels of leverage, good interest cover and sufficient headroom under our facilities, the Group is in robust financial shape."

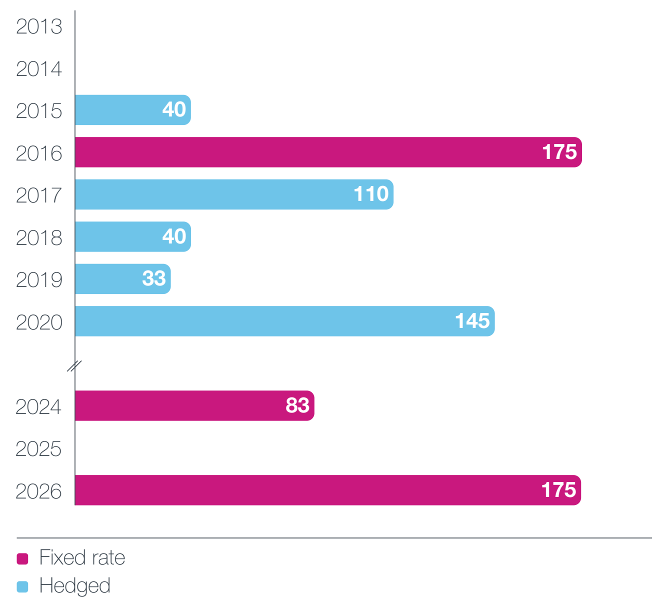
Damian Wisniewski
Finance Director

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



[1] Excludes £2.5m overdraft facility

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



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

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

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

Weighted average length of unexpired debt

6.1 years

Net debt

	2012 £m	2011 £m
Cash	(4.4)	(3.5)
Bank overdraft	–	–
Revolving bank facilities	437.5	477.0
Secured loan	83.0	–
Unsecured loan	–	31.4
Loan notes	–	1.1
Secured bonds 2026	175.0	175.0
Fair value and issue costs	16.4	17.2
Unsecured convertible bonds 2016	175.0	175.0
Issue costs, equity component and unwinding of discount	(10.0)	(12.6)
Leasehold liabilities	8.9	7.4
Bank loan arrangement costs	(6.6)	(3.5)
Net debt	**874.8**	864.5

Net debt and cash flow

Notwithstanding further significant investment in the pipeline and £101.5m of new properties acquired in the year, property disposals ensured that net debt only increased by £10.3m during the year to £874.8m. The principal properties disposed of were Riverwalk House, 232-242 Vauxhall Bridge Road SW1, the Triangle Centre in Scotland and a half share in 1-5 Grosvenor Place SW1, which together provided a cash inflow of £161.0m after costs.

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

Dividend

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

Interest cover ratio

351%

Gearing and interest cover ratio

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

Debt summary

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

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

"Our approach is to manage dividend distribution in a way that maintains sufficient dividend cover out of recurring earnings but which also reflects a progressive and sustainable level of growth for our shareholders."

Damian Wisniewski
Finance Director