



# FINANCIAL STATEMENTS



# GROUP INCOME STATEMENT

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Gross property and other income	5	<b>150.6</b>	150.9
Net property and other income	5	<b>117.0</b>	117.7
Administrative expenses		<b>(24.5)</b>	(22.8)
Movement in valuation of cash-settled share options		<b>(0.6)</b>	0.1
Total administrative expenses		<b>(25.1)</b>	(22.7)
Revaluation surplus	18	<b>174.4</b>	170.1
Profit on disposal of investment property	6	<b>6.9</b>	36.1
Profit on disposal of investment	7	<b>3.9</b>	–
Profit from operations		<b>277.1</b>	301.2
Finance income	8	<b>1.0</b>	1.1
Finance costs	8	<b>(41.8)</b>	(44.3)
Movement in fair value of derivative financial instruments		<b>(2.4)</b>	(26.5)
Financial derivative termination costs	9	<b>(6.9)</b>	–
Share of results of joint ventures	10	<b>1.1</b>	1.5
Profit before tax	11	<b>228.1</b>	233.0
Tax credit	16	<b>4.6</b>	1.3
Profit for the year		<b>232.7</b>	234.3
Attributable to:			
Equity shareholders	31	<b>226.9</b>	228.3
Minority interest		<b>5.8</b>	6.0
Earnings per share	17	<b>222.76p</b>	225.20p
Diluted earnings per share	17	<b>211.82p</b>	217.67p

The notes on pages 115 to 147 form part of these financial statements.

# GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		<b>232.7</b>	234.3
Actuarial gains/(losses) on defined benefit pension scheme	15	<b>1.2</b>	(3.5)
Revaluation surplus of owner-occupied property	18	<b>0.9</b>	2.0
Deferred tax on revaluation surplus	21	<b>0.3</b>	0.7
Foreign currency translation	8	<b>(0.3)</b>	–
Reclassification of exchange differences to income statement	7	<b>(3.9)</b>	–
Other comprehensive expense		<b>(1.8)</b>	(0.8)
<b>Total comprehensive income relating to the year</b>		<b>230.9</b>	233.5
Attributable to:			
Equity shareholders		<b>225.1</b>	227.5
Minority interest		<b>5.8</b>	6.0
		<b>230.9</b>	233.5

The notes on pages 115 to 147 form part of these financial statements.

# BALANCE SHEETS

as at 31 December 2012

	Note	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
<b>Non-current assets</b>					
Investment property	18	<b>2,772.6</b>	2,444.9	–	–
Property, plant and equipment	19	<b>20.3</b>	19.4	<b>1.7</b>	1.6
Investments	20	<b>10.2</b>	9.7	<b>912.1</b>	837.6
Deferred tax	21	<b>0.5</b>	–	<b>4.3</b>	3.3
Pension scheme surplus	15	<b>0.2</b>	–	<b>0.2</b>	–
Other receivables	22	<b>60.9</b>	55.4	–	–
		<b>2,864.7</b>	2,529.4	<b>918.3</b>	842.5
<b>Current assets</b>					
Trade and other receivables	23	<b>50.8</b>	45.0	<b>792.4</b>	546.4
Corporation tax asset		–	–	<b>0.4</b>	0.8
Cash and cash equivalents	33	<b>4.4</b>	3.5	<b>1.2</b>	–
		<b>55.2</b>	48.5	<b>794.0</b>	547.2
Non-current assets held for sale	24	<b>16.5</b>	137.5	–	–
<b>Total assets</b>		<b>2,936.4</b>	2,715.4	<b>1,712.3</b>	1,389.7
<b>Current liabilities</b>					
Bank overdraft and loans	27	–	32.5	–	32.5
Trade and other payables	25	<b>80.5</b>	70.9	<b>107.7</b>	164.4
Corporation tax liability		<b>1.9</b>	1.3	–	–
Provisions	26	<b>1.7</b>	1.6	<b>0.6</b>	0.5
		<b>84.1</b>	106.3	<b>108.3</b>	197.4
<b>Non-current liabilities</b>					
Borrowings	27	<b>879.2</b>	835.5	<b>650.9</b>	359.8
Derivative financial instruments	27	<b>54.3</b>	51.9	<b>50.2</b>	30.7
Provisions	26	<b>0.8</b>	0.5	<b>0.8</b>	0.5
Pension scheme deficit	15	–	1.5	–	1.5
Deferred tax	21	–	5.2	–	–
		<b>934.3</b>	894.6	<b>701.9</b>	392.5
<b>Total liabilities</b>		<b>1,018.4</b>	1,000.9	<b>810.2</b>	589.9
<b>Total net assets</b>		<b>1,918.0</b>	1,714.5	<b>902.1</b>	799.8
<b>Equity</b>					
Share capital	29	<b>5.0</b>	5.0	<b>5.0</b>	5.0
Share premium	30	<b>165.3</b>	162.9	<b>165.3</b>	162.9
Other reserves	30	<b>934.0</b>	936.6	<b>681.9</b>	600.5
Retained earnings	30	<b>756.1</b>	558.2	<b>49.9</b>	31.4
Equity shareholders' funds		<b>1,860.4</b>	1,662.7	<b>902.1</b>	799.8
Minority interest		<b>57.6</b>	51.8	–	–
<b>Total equity</b>		<b>1,918.0</b>	1,714.5	<b>902.1</b>	799.8

The financial statements were approved by the Board of Directors and authorised for issue on 28 February 2013.

**John D. Burns**      **Damian M.A. Wisniewski**  
**Director**            **Director**

The notes on pages 115 to 147 form part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital £m	Share premium £m	Other reserves <sup>1</sup> £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
<b>Group</b>							
At 1 January 2012	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
Profit for the year	–	–	–	226.9	226.9	5.8	232.7
Other comprehensive income	–	–	(3.0)	1.2	(1.8)	–	(1.8)
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
<b>At 31 December 2012</b>	<b>5.0</b>	<b>165.3</b>	<b>934.0</b>	<b>756.1</b>	<b>1,860.4</b>	<b>57.6</b>	<b>1,918.0</b>
<b>Company</b>							
At 1 January 2011	5.0	158.2	924.0	361.6	1,448.8	45.9	1,494.7
Profit for the year	–	–	–	228.3	228.3	6.0	234.3
Other comprehensive income	–	–	2.7	(3.5)	(0.8)	–	(0.8)
Share-based payments	–	–	0.5	1.9	2.4	–	2.4
Issue of convertible bonds	–	–	9.4	–	9.4	–	9.4
Dividends paid	–	–	–	(25.4)	(25.4)	(0.1)	(25.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2011	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
<b>Company</b>							
At 1 January 2012	5.0	162.9	600.5	31.4	799.8	–	799.8
Profit for the year	–	–	–	128.5	128.5	–	128.5
Other comprehensive income	–	–	–	1.2	1.2	–	1.2
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Transfer between reserves <sup>2</sup>	–	–	81.0	(81.0)	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
<b>At 31 December 2012</b>	<b>5.0</b>	<b>165.3</b>	<b>681.9</b>	<b>49.9</b>	<b>902.1</b>	<b>–</b>	<b>902.1</b>
<b>Company</b>							
At 1 January 2011	5.0	158.2	475.1	97.7	736.0	–	736.0
Profit for the year	–	–	–	90.3	90.3	–	90.3
Other comprehensive income	–	–	–	(3.5)	(3.5)	–	(3.5)
Share-based payments	–	–	0.5	1.9	2.4	–	2.4
Transfer between reserves <sup>2</sup>	–	–	124.9	(124.9)	–	–	–
Dividends paid	–	–	–	(25.4)	(25.4)	–	(25.4)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2011	5.0	162.9	600.5	31.4	799.8	–	799.8

<sup>1</sup> See note 30.

<sup>2</sup> £71.6m (2011: £124.9m) of this transfer from retained earnings to other reserves relates to the impairment of the Company's investment in London Merchant Securities and the remainder relates to the equity portion of the long-term intercompany loan.

The notes on pages 115 to 147 form part of these financial statements.

# CASH FLOW STATEMENTS

for the year ended 31 December 2012

	Note	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Operating activities					
Property income		<b>118.1</b>	116.8	–	–
Property expenses		<b>(9.9)</b>	(13.1)	–	–
Cash paid to and on behalf of employees		<b>(17.8)</b>	(14.4)	<b>(17.1)</b>	(14.2)
Other administrative expenses		<b>(4.3)</b>	(5.2)	<b>(4.4)</b>	(5.0)
Interest received		<b>0.1</b>	–	–	–
Interest paid	8	<b>(33.3)</b>	(36.5)	<b>(22.0)</b>	(14.6)
Other finance costs		<b>(3.4)</b>	(1.8)	<b>(3.2)</b>	(1.5)
Other income		<b>2.5</b>	2.1	<b>2.4</b>	1.8
Tax (paid)/received in respect of operating activities		<b>(0.2)</b>	(0.7)	<b>0.2</b>	(0.5)
Net cash from/(used in) operating activities		<b>51.8</b>	47.2	<b>(44.1)</b>	(34.0)
Investing activities					
Acquisition of investment properties		<b>(99.8)</b>	(91.6)	–	–
Capital expenditure on investment properties	8	<b>(78.6)</b>	(42.6)	–	–
Disposal of investment properties		<b>161.0</b>	131.5	–	–
Purchase of property, plant and equipment		<b>(0.4)</b>	(0.2)	<b>(0.4)</b>	(0.2)
Distributions received from joint ventures		<b>0.7</b>	0.3	<b>0.4</b>	–
Purchase of investment in subsidiary		–	–	<b>(3.3)</b>	–
Advances to minority interest holder		<b>(2.4)</b>	(0.8)	–	–
Net cash used in investing activities		<b>(19.5)</b>	(3.4)	<b>(3.3)</b>	(0.2)
Financing activities					
Net proceeds of bond issue		–	170.2	–	–
Repayment of revolving bank loan		<b>(123.0)</b>	(75.0)	–	(75.0)
Drawdown of new revolving bank loan		<b>73.0</b>	–	<b>73.0</b>	–
Net movement in intercompany loans		–	–	<b>(174.9)</b>	180.3
Net movement in other revolving bank loans		<b>133.5</b>	(179.1)	<b>133.5</b>	(113.0)
Repayment of non-revolving bank loans		<b>(158.5)</b>	–	<b>(33.5)</b>	–
Drawdown of non-revolving bank loans		–	67.5	–	67.5
Drawdown of non-revolving loan		<b>81.6</b>	–	<b>81.6</b>	–
Repayment of loan notes		<b>(1.1)</b>	–	<b>(1.1)</b>	–
Financial derivative termination costs		<b>(6.9)</b>	–	–	–
Net proceeds of share issues	29	<b>0.4</b>	–	<b>0.4</b>	–
Dividends paid to minority interest holder		–	(0.1)	–	–
Dividends paid	32	<b>(30.4)</b>	(25.4)	<b>(30.4)</b>	(25.4)
Net cash (used in)/from financing activities		<b>(31.4)</b>	(41.9)	<b>48.6</b>	34.4
Increase in cash and cash equivalents in the year		<b>0.9</b>	1.9	<b>1.2</b>	0.2
Cash and cash equivalents at the beginning of the year		<b>3.5</b>	1.6	–	(0.2)
Cash and cash equivalents at the end of the year	33	<b>4.4</b>	3.5	<b>1.2</b>	–

The notes on pages 115 to 147 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

## 1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, available for sale investments, and financial assets and liabilities held for trading. The accounting policies used are consistent with those applied in the 2011 annual financial statements, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year and the presentational change outlined below.

## 2 Changes in accounting policies

The principal accounting policies are described in note 41 and are consistent with those applied in the year ended 31 December 2011. The new standards adopted during 2012 are outlined below.

IFRS 7 Financial Instruments Disclosures (amendment); and  
IAS 12 Income Taxes (amendment).

These had no material impact on the financial statements.

In accordance with best practice guidelines, a presentational change has been made such that, where the Group acts as a principal, service charge income and expenditure have been accounted for separately in the Group income statement. This has resulted in an increase in both the previously stated 2011 gross property and other income and property expenses of £23.4m, as shown in note 5. There is no impact on profit for the year or net assets.

### Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations applicable to the Group's financial statements which have not been applied in these financial statements were in issue but not yet effective at the year end. The following standards are deemed not relevant to the Group or to have no material impact on the financial statements of the Group when the relevant standards come into effect:

IFRS 9 Financial Instruments;  
IFRS 12 Disclosure of Interests in Other Entities;  
IFRS 13 Fair Value Measurement;  
IAS1 Presentation of Financial Statements (amendment);  
IAS 19 Employee Benefits (amendment);  
IAS 27 Separate Financial Statements;  
IAS 28 Investments in Associates and Joint Ventures; and  
IAS 32 Financial Instruments: Presentation.

The following standards will affect the accounting for any future joint arrangements entered into by the Group:

IFRS 10 Consolidated Financial Statements; and  
IFRS 11 Joint Arrangements.

## 3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The Group's significant accounting policies are stated in note 41. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

### Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the nature of any disputed amounts.

### Property portfolio valuation

The Group uses the valuation carried out by its independent valuers as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

### Outstanding rent reviews

Where the outcome of an outstanding rent review is reasonably certain, rent is accrued from the rent review date based upon an estimated annual rent. This estimate is derived from knowledge of market rents for comparable properties and is only accrued where the outcome is considered to be reasonably certain.



### 3 Significant judgements, key assumptions and estimates (continued)

#### Compliance with the real estate investment trust (REIT) taxation regime

The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax exempt business; and
- at least 90% of the tax exempt business must be distributed.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business which is within the REIT structure.

#### 4 Segmental information

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

The internal financial reports received by the Group's executive Board contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the adjusted earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 17. Additionally, information is provided to the executive Board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and assets held for sale and comprises 93% office buildings<sup>1</sup> by value. The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 7% represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

No tenant accounts for more than 10% of gross property income in either 2012 or 2011, and no individual property accounts for more than 10% of the value of the property portfolio in either year.

All of the Group's properties are based in the UK. The Group also has a joint venture investment in Prague which represents 0.2% of the Group's assets (see note 20) and is excluded from this analysis. No geographical grouping is contained in any of the internal financial reports provided to the Group's executive Board. Therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the business review.

<sup>1</sup> Some office buildings have an ancillary element such as retail or residential.

#### Gross property income

	2012			2011		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
West End central	78.0	1.9	<b>79.9</b>	79.1	3.4	82.5
West End borders	11.5	0.2	<b>11.7</b>	9.0	0.2	9.2
City borders	27.3	0.1	<b>27.4</b>	27.4	0.1	27.5
Provincial	–	5.8	<b>5.8</b>	–	6.3	6.3
	116.8	8.0	<b>124.8</b>	115.5	10.0	125.5

A reconciliation of gross property income to gross property and other income is given in note 5.

#### Property portfolio

	2012			2011		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
<b>Carrying value</b>						
West End central	1,782.9	86.1	<b>1,869.0</b>	1,706.4	79.9	1,786.3
West End borders	244.5	9.9	<b>254.4</b>	210.5	9.8	220.3
City borders	590.2	4.5	<b>594.7</b>	480.2	2.7	482.9
Provincial	–	88.9	<b>88.9</b>	–	110.0	110.0
	2,617.6	189.4	<b>2,807.0</b>	2,397.1	202.4	2,599.5

	2012			2011		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
<b>Fair value</b>						
West End central	1,806.4	86.2	<b>1,892.6</b>	1,726.7	80.0	1,806.7
West End borders	259.7	9.9	<b>269.6</b>	221.6	9.8	231.4
City borders	599.4	4.5	<b>603.9</b>	491.0	2.7	493.7
Provincial	–	93.5	<b>93.5</b>	–	114.7	114.7
	2,665.5	194.1	<b>2,859.6</b>	2,439.3	207.2	2,646.5

A reconciliation between the fair value and carrying value of the portfolio is set out in note 18.

## 5 Property and other income

	2012 £m	2011 £m
Rental income	124.7	124.1
Surrender premiums received	0.3	2.4
Write-off of associated rents previously recognised in advance	(0.2)	(1.0)
	0.1	1.4
Gross property income	124.8	125.5
Service charge income	23.3	23.4
Other income	2.5	2.0
Gross property and other income	150.6	150.9
Gross property income	124.8	125.5
Other income	2.5	2.0
Ground rents	(0.5)	(0.3)
Reverse surrender premiums	(0.2)	(1.9)
Service charge income	23.3	23.4
Service charge expenses	(24.8)	(25.8)
	(1.5)	(2.4)
Other property costs	(8.1)	(5.2)
Net property and other income	117.0	117.7

Included within rental income is £2.5m (2011: £1.8m) of income from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property, rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £8.2m (2011: £8.8m) relating to rents recognised in advance of the cash receipts.

Other income relates to fees and commissions earned in relation to the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of services. In 2011, it also included £0.2m of development income which represented the finalisation of the profit share earned by the Group from the project management of the construction and letting of a property on behalf of a third party.

Net property and other income includes costs of £0.5m (2011: £0.2m) relating to properties which produced no income during the year.

## 6 Profit on disposal of investment property

	2012 £m	2011 £m
Gross disposal proceeds	162.0	132.5
Costs of disposal	(1.1)	(1.2)
Net disposal proceeds	160.9	131.3
Carrying value	(154.2)	(95.0)
Adjustment for rents recognised in advance	(0.9)	(0.2)
Movement in grossing up of headlease liability	1.1	–
	6.9	36.1

## 7 Profit on disposal of investment

In March 2012, the Group liquidated a non-trading US subsidiary. In previous years, the retranslation of the US dollar denominated loan from this subsidiary resulted in foreign exchange movements being reflected in the income statement. The net asset impact in each year has been effectively nil as there was an equal and opposite movement taken to other comprehensive income on translation of the subsidiary's net asset balance. In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, on disposal of this foreign subsidiary, the cumulative amount of £3.9m of the exchange differences previously recognised in other comprehensive income and accumulated in the foreign exchange translation reserve has been reclassified to the income statement. As in previous years, the effect of this reclassification on net assets is effectively nil.

## 8 Finance income and costs

	2012 £m	2011 £m
Finance income		
Return on pension plan assets	0.7	0.8
Other	–	0.3
Foreign exchange gain	0.3	–
<b>Total finance income</b>	<b>1.0</b>	<b>1.1</b>
Finance costs		
Bank loans and overdraft	21.9	27.0
Non-utilisation fees	3.3	1.9
Secured bonds	11.4	11.4
Unsecured convertible bonds	6.6	3.8
Amortisation of issue and arrangement costs	3.1	2.0
Amortisation of the fair value of the secured bonds	(0.8)	(0.8)
Finance leases	0.4	0.5
Pension interest costs	0.6	0.6
Other	0.2	0.1
Gross interest costs	46.7	46.5
Less: interest capitalised	(4.9)	(2.2)
<b>Total finance costs</b>	<b>41.8</b>	<b>44.3</b>

Interest of £4.9m (2011: £2.2m) has been capitalised on development projects, in accordance with IAS 23, Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total interest paid during 2012 was £38.2m (2011: £38.5m) of which £4.9m (2011: £2.0m) was included in capital expenditure on investment properties in the Group cash flow statement under investing activities.

The foreign exchange gain in 2012 of £0.3m (2011: £nil) resulted from the retranslation of an intercompany loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement was effectively nil as there is an offsetting entry in equity (see Group statement of comprehensive income). The US subsidiary was liquidated in March 2012 (see note 7).

## 9 Financial derivative termination costs

In January 2012, the Group terminated two interest rate swaps with a principal amount of £130m and a weighted average rate of approximately 5.0%, excluding margin, which were due to expire in March 2013. The cost of breaking these swaps was £6.3m, a small discount to the additional interest charge that would have been incurred through the remaining life of the swaps.

In addition, in July 2012, the Group incurred costs of £0.6m breaking an interest rate swap with a principal amount of £65m and a weighted average rate of just under 2.0%, excluding margin, which was due to expire in March 2013.

## 10 Share of results of joint ventures

	2012 £m	2011 £m
Revaluation surplus	0.3	0.9
Other profit from operations after tax	0.8	0.6
	<b>1.1</b>	<b>1.5</b>

See note 20 for further details of the Group's joint ventures.

## 11 Profit before tax

	2012 £m	2011 £m
This is arrived at after charging:		
Depreciation and amortisation	0.4	0.4
Contingent rent payable under property finance leases	0.5	0.3
Auditor's remuneration		
Audit – Group	0.2	0.3
Audit – subsidiaries	0.1	0.1

## 12 Directors' emoluments

	2012 £m	2011 £m
Remuneration for management services	5.5	5.5
Non-executive Directors' remuneration	0.5	0.5
Gain on exercise of share options	3.8	2.2
Pension contributions	0.5	0.5
	<b>10.3</b>	8.7
National insurance contributions	1.4	1.1
	<b>11.7</b>	9.8

Included within the figures shown in note 13 below are amounts recognised in the Group income statement, in accordance with IFRS 2, Share-based Payment, relating to the Directors. These are expenses of £3.3m (2011: £3.0m) and £0.7m (2011: credit £0.1m) relating to equity-settled and cash-settled share options respectively.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 89 to 99. The only key management personnel are the Directors.

## 13 Employees

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Staff costs, including those of Directors:				
Wages and salaries	12.3	11.0	12.2	11.0
Social security costs	1.9	1.6	1.8	1.6
Pension costs	1.5	1.3	1.5	1.3
Share-based payments expense relating to equity-settled schemes	3.5	3.3	3.5	3.3
Movement in valuation of cash-settled share options	0.6	(0.1)	-	-
National insurance contributions relating to cash-settled schemes	0.1	-	-	-
Share-based payments expense/(credit) relating to cash-settled schemes	0.7	(0.1)	-	-
	<b>19.9</b>	17.1	<b>19.0</b>	17.2

The average number of employees in the Group during the year, excluding Directors, was 83 (2011: 80). The average number of employees in the Company during the year, excluding Directors, was 79 (2011: 76). All were employed in administrative roles. In addition, there were a further 13 Group employees (2011: 13) whose costs were recharged to tenants.

## 14 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 89 to 99, other than the employee share plan that is detailed below.

### Group and Company – equity-settled option scheme

This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 89 to 99. The Directors are not entitled to any awards under this scheme.

	Exercise price £	Date from which exercisable	Expiry date	Number of options
	6.10	18/03/2012	17/03/2019	59,500
	13.20	18/03/2013	17/03/2020	56,000
Outstanding at 1 January 2011				115,500
Options granted during the year	16.60	25/03/2014	24/03/2021	87,500
Options lapsed	6.10			(2,000)
Options lapsed	13.20			(3,000)
Options lapsed	16.60			(1,000)
Options lapsed during the year				(6,000)
Outstanding at 31 December 2011				197,000
Options granted during the year	17.19	12/04/2015	11/04/2022	99,750
Options exercised	6.10			(45,575)
Options lapsed	13.20			(3,000)
Options lapsed	16.60			(3,000)
Options lapsed during the year				(6,000)
<b>Outstanding at 31 December 2012</b>				<b>245,175</b>

## 14 Share-based payments (continued)

	31 December 2012	31 December 2011	1 January 2011
Number of shares:			
Exercisable	11,925	–	–
Non-exercisable	233,250	197,000	115,500
Weighted average exercise price of share options:			
Exercisable	£6.10	–	–
Non-exercisable	£16.12	£12.62	£9.54
Weighted average remaining contracted life of share options:			
Exercisable	6.21 years	–	–
Non-exercisable	8.46 years	8.37 years	8.70 years
Weighted average exercise price of share options that lapsed:			
Exercisable	–	–	–
Non-exercisable	£14.90	£11.40	£8.47

The following information is relevant in the determination of the fair value of the options granted during 2011 and 2012 under the equity-settled employee share plan operated by the Group.

	2012	2011
Option pricing model used	Binominal lattice	Binominal lattice
Risk free interest rate	0.7%	2.4%
Volatility	41.0%	40.0%
Dividend yield	1.8%	1.8%

For both the 2012 and 2011 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

### Group – cash-settled option scheme

All options relating to the cash-settled option scheme arose as a result of the acquisition of London Merchant Securities plc.

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31 December 2012 of £21.06 (2011: £15.60) and a dividend yield of 1.5% (2011: 1.9%) were used together with a risk-free interest rate of 0.3% (2011: 0.3%).

Due to the small number of individuals who have been granted these options, an assumption of zero employee turnover has been made. Additionally, volatility of 18% pa has been used for options with expected terms of one year, which now covers all outstanding awards (2011: 28% pa and 25% pa for options with expected terms of one and two years respectively).

In general, the value of an option is affected by how quickly employees are assumed to exercise their awards after vesting. In this case, however, given the other assumptions, the share price at 31 December 2012, and the fact that the expected lives of the options are relatively short, the fair values are not sensitive to this assumption. It has been assumed that employees try to maximise their returns and therefore do not exercise their options immediately.

## 15 Pension costs

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group companies.

### Defined contribution plan

The total expense relating to this plan in the current year was £1.2m (2011: £0.9m).

### Defined benefit plan

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions are invested in a Managed Fund Policy with F&C Fund Management Limited, Legal and General Investment Management Limited and Ruffer LLP, plus annuity policies held in the name of the Trustees.

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 5.4% pa (2011: 6.9% pa) and that salaries will be increased at 4.4% pa (2011: 4.6% pa). The market value of assets of the scheme at 31 December 2012 was £12.0m (2011: £13.2m) and the actuarial value of those assets on an ongoing basis represented 102% (2011: 90%) of the benefit of £11.8m (2011: £14.7m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.2m (2011: £1.5m deficit). The Group paid a deficit reduction contribution of £0.5m during the year (2011: £1.0m).

### Defined benefit obligations

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	(11.8)	(14.7)	(10.9)	(9.9)	(7.7)
Fair value of plan assets	12.0	13.2	12.0	10.7	8.7
Unrecognised surplus	–	–	(0.4)	–	–
Recognised surplus/(deficit) for defined benefit obligations	0.2	(1.5)	0.7	0.8	1.0

### Movements in present value of the defined benefit surplus/(obligations) recognised in the balance sheet

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
At 1 January	(1.5)	0.7	0.8	1.0	2.8
Net return	0.5	1.3	0.3	–	0.3
Actuarial profits/(losses) recognised in retained earnings	1.2	(3.5)	(0.4)	(0.2)	(2.1)
At 31 December	0.2	(1.5)	0.7	0.8	1.0

### Income recognised in the income statement

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Current service costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Interest on obligation	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)
Expected return on plan assets	0.7	0.8	0.8	0.6	0.8
	–	0.1	0.1	–	0.2

The income is recognised in the following line items in the income statement:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Administrative expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Finance costs	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)
Finance income	0.7	0.8	0.8	0.6	0.8
	–	0.1	0.1	–	0.2

### Change in the fair value of plan assets

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
At 1 January	13.2	12.0	10.7	8.7	11.6
Expected return	0.7	0.8	0.8	0.6	0.8
Total contributions	0.5	1.1	0.1	0.1	0.1
Benefits paid	(2.6)	(0.5)	(0.4)	–	(0.4)
Actuarial gains/(losses)	0.2	(0.2)	0.8	1.3	(3.4)
At 31 December	12.0	13.2	12.0	10.7	8.7

The actual return on the plan assets for the year was £0.9m (2011: £0.6m). The overall expected return on plan assets is derived as the weighted average of the long-term expected returns from each of the main asset classes. The long-term expected rate of return on cash is determined by reference to gilt rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected rates of return on equities and property are based on the rate of return on bonds with allowance for outperformance.

## 15 Pension costs (continued)

### Changes in the present value of defined benefit obligations

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
At 1 January	14.7	10.9	9.9	7.7	8.8
Service cost	0.1	0.1	0.1	0.1	0.1
Interest cost	0.6	0.6	0.6	0.5	0.5
Benefits paid	(2.6)	(0.5)	(0.5)	–	(0.4)
Actuarial (gains)/losses	(1.0)	3.6	0.8	1.6	(1.3)
At 31 December	11.8	14.7	10.9	9.9	7.7

### Experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience gains/(losses) on plan assets	0.2	(0.2)	0.8	1.3	(3.4)
Experience (losses)/gains on plan liabilities	(0.4)	(3.6)	(0.8)	(1.6)	1.3

### Analysis of plan assets

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Equities	0.2	2.3	2.9	9.3	6.6
Bonds	2.6	2.2	2.0	1.0	1.3
Property	–	–	–	–	0.1
Cash	0.7	1.4	0.3	0.4	0.7
Funds	8.5	7.3	6.8	–	–
Total	12.0	13.2	12.0	10.7	8.7

### Principal actuarial assumptions

	2012	2011	2010	2009	2008
Discount rate at 31 December (% pa)	4.7	4.7	5.4	5.7	6.3
Expected return on plan assets at 31 December (% pa)	5.4	6.9	7.7	7.1	6.8
Future salary increases (% pa)	4.4	4.6	5.0	5.0	4.4
Inflation (% pa)	2.9	3.1	3.5	3.5	2.9
Future pension increases (% pa)	4.4	4.6	5.0	5.0	5.0
Mortality rate					
Male retiring at age 65 (years)	23.5	24.1	22.1	22.0	22.0
Female retiring at age 65 (years)	25.9	26.5	25.0	24.9	24.8
Male retiring at age 65 if aged 45 today (years)	25.4	26.1	23.1	23.1	23.1
Female retiring at age 65 if aged 45 today (years)	27.8	28.4	25.9	25.9	25.9

## 16 Tax credit

	2012 £m	2011 £m
Corporation tax		
UK corporation tax and income tax on profit for the year	(0.6)	(0.5)
Other adjustments in respect of prior years' tax	(0.2)	1.8
Corporation tax (charge)/credit	(0.8)	1.3
Deferred tax		
Origination and reversal of temporary differences	5.1	(0.4)
Adjustment for changes in estimates	0.3	0.4
Deferred tax credit	5.4	–
Tax credit	4.6	1.3

In addition, a deferred tax credit of £0.3m (2011: £0.7m) was recognised in the Group statement of comprehensive income relating to revaluation of the owner-occupied property.

## 16 Tax credit (continued)

The effective rate of tax for 2012 is lower (2011: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2012 £m	2011 £m
Profit before tax	<b>228.1</b>	233.0
Expected tax charge based on the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%) <sup>1</sup>	<b>(55.9)</b>	(61.7)
Difference between tax and accounting profit on disposals	<b>1.1</b>	9.6
REIT exempt income	<b>5.6</b>	7.6
Revaluation surplus attributable to REIT properties	<b>42.3</b>	44.5
Expenses and fair value adjustments not deductible/(allowable) for tax purposes	<b>4.7</b>	(3.2)
Capital allowances	<b>3.3</b>	3.8
Origination and reversal of temporary differences	<b>5.1</b>	–
Other differences	<b>(1.4)</b>	(1.1)
Tax credit/(charge) on current year's profit	<b>4.8</b>	(0.5)
Adjustments in respect of prior years' tax	<b>(0.2)</b>	1.8
	<b>4.6</b>	1.3

<sup>1</sup> The expected tax rate for 2012 has been changed in line with the 2012 Finance Act.

## 17 EPRA performance measures

### Summary table

	2012		2011	
	£m	Pence per share p	£m	Pence per share p
EPRA earnings	<b>£51.3m</b>	<b>50.36</b>	£52.3m	51.59
EPRA adjusted net asset value	<b>£1,933.9m</b>	<b>1,886</b>	£1,739.8m	1,701
EPRA triple net asset value	<b>£1,820.2m</b>	<b>1,775</b>	£1,644.3m	1,607
EPRA net initial yield	<b>4.3%</b>		4.4%	
EPRA "topped-up" net initial yield	<b>4.8%</b>		5.2%	
EPRA vacancy rate	<b>1.6%</b>		1.3%	

The definition of these measures can be found on page 150.

### Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2012 '000	2011 '000	2012 '000	2011 '000
For use in basic measures	<b>101,859</b>	101,375	<b>102,014</b>	101,641
Dilutive effect of convertible bonds	<b>7,876</b>	4,587	–	–
Dilutive effect of share-based payments	<b>500</b>	667	<b>523</b>	656
For use in diluted earnings per share	<b>110,235</b>	106,629	<b>102,537</b>	102,297
Less dilutive effect of convertible bonds	<b>(7,876)</b>	(4,587)	–	–
For use in other diluted measures	<b>102,359</b>	102,042	<b>102,537</b>	102,297

On 2 June 2011, the Group issued £175m of unsecured convertible bonds, with an initial conversion price set at £22.22. Although it was not expected that the bonds would be converted at the share price at either year end (2012: £21.06; 2011: £15.60), the dilutive effect of these shares is required to be recognised in accordance with IAS 33, Earnings Per Share. For 2012 and 2011, these shares are dilutive for basic earnings per share. However, they are anti-dilutive for both EPRA and underlying earnings per share and all net asset per share measures, and have therefore been excluded from those calculations.



## 17 EPRA performance measures (continued)

### Profit before tax, earnings and earnings per share

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2012		233.5		211.82
Interest effect of dilutive convertible bonds		(6.6)		
Undiluted profit/earnings	228.1	226.9	222.76	
Adjustment for:				
Disposal of properties	(6.9)	(6.9)		
Disposal of investment	(3.9)	(3.9)		
Group revaluation surplus	(174.4)	(178.8)		
Joint venture revaluation surplus	(0.3)	(0.3)		
Fair value movement in derivative financial instruments	2.4	2.4		
Financial derivative termination costs	6.9	6.9		
Movement in valuation of cash-settled share options	0.6	0.6		
Minority interests in respect of the above	–	4.4		
<b>EPRA</b>	<b>52.5</b>	<b>51.3</b>	<b>50.36</b>	<b>50.12</b>
Foreign exchange gain	(0.3)	(0.3)		
Rates credits	(0.3)	(0.3)		
Underlying	51.9	50.7	49.77	49.53
Diluted earnings for year ended 31 December 2011		232.1		217.67
Interest effect of dilutive convertible bonds		(3.8)		
Undiluted profit/earnings	233.0	228.3	225.20	
Adjustment for:				
Disposal of properties	(36.1)	(36.1)		
Group revaluation surplus	(170.1)	(169.5)		
Joint venture revaluation surplus	(0.9)	(0.9)		
Fair value movement in derivative financial instruments	26.5	26.5		
Movement in valuation of cash-settled share options	(0.1)	(0.1)		
Minority interests in respect of the above	–	4.1		
EPRA	52.3	52.3	51.59	51.25
Rates credits	(1.6)	(1.6)		
Underlying	50.7	50.7	50.01	49.69

## 17 EPRA performance measures (continued)

### Net asset value and net asset value per share

	£m	Basic p	Diluted p
<b>At 31 December 2012</b>			
Net assets	1,918.0		
Minority interest	(57.6)		
Net assets attributable to equity shareholders	1,860.4	1,824	1,814
Adjustment for:			
Deferred tax on revaluation surplus	4.1		
Fair value of derivative financial instruments	54.3		
Fair value adjustment to secured bonds	17.8		
Minority interest in respect of the above	(2.7)		
<b>EPRA adjusted net asset value</b>	<b>1,933.9</b>	<b>1,896</b>	<b>1,886</b>
Adjustment for:			
Deferred tax on revaluation surplus	(4.1)		
Fair value of derivative financial instruments	(54.3)		
Mark-to-market of unsecured bonds	(20.0)		
Mark-to-market of secured bonds	(39.0)		
Mark-to-market of fixed rate secured loan	1.0		
Minority interest in respect of the above	2.7		
<b>EPRA triple net asset value</b>	<b>1,820.2</b>	<b>1,784</b>	<b>1,775</b>
<b>At 31 December 2011</b>			
Net assets	1,714.5		
Minority interest	(51.8)		
Net assets attributable to equity shareholders	1,662.7	1,636	1,625
Adjustment for:			
Deferred tax on revaluation surplus	8.8		
Fair value of derivative financial instruments	51.9		
Fair value adjustment to secured bonds	18.6		
Minority interest in respect of the above	(2.2)		
<b>EPRA adjusted net asset value</b>	<b>1,739.8</b>	<b>1,712</b>	<b>1,701</b>
Adjustment for:			
Deferred tax on revaluation surplus	(8.8)		
Fair value of derivative financial instruments	(51.9)		
Mark-to-market of unsecured bonds	2.4		
Mark-to-market of secured bonds	(39.4)		
Minority interest in respect of the above	2.2		
<b>EPRA triple net asset value</b>	<b>1,644.3</b>	<b>1,618</b>	<b>1,607</b>

## 17 EPRA performance measures (continued)

### Net initial yield and "topped-up" net initial yield

	2012 £m	2011 £m
Property portfolio – wholly owned	2,859.6	2,646.5
Share of joint ventures	20.5	20.2
Less non-EPRA properties <sup>1</sup>	(583.8)	(280.8)
Completed property portfolio	2,296.3	2,385.9
Allowance for:		
Estimated purchasers' costs	132.0	137.2
Estimated costs to complete	0.5	2.2
EPRA property portfolio valuation (A)	2,428.8	2,525.3
Annualised contracted rental income, net of ground rents	119.6	113.1
Share of joint ventures	1.9	1.6
Less non-EPRA properties <sup>1</sup>	(15.0)	(3.5)
Add outstanding rent reviews	0.7	1.2
Less estimate of non-recoverable expenses	(1.6)	(1.8)
	(15.9)	(4.1)
Current income net of non-recoverable expenses (B)	105.6	110.6
Contractual rental increases across the portfolio	21.0	20.8
Less non-EPRA properties <sup>1</sup>	(9.0)	–
Contractual rental increases across the EPRA portfolio	12.0	20.8
"Topped-up" net annualised rent (C)	117.6	131.4
EPRA net initial yield (B ÷ A)	4.3%	4.4%
EPRA "topped-up" net initial yield (C ÷ A)	4.8%	5.2%

### Vacancy rate

	2012 £m	2011 £m
Annualised estimated rental value of vacant premises	2.1	1.9
Portfolio estimated rental value	175.0	160.4
Less non-EPRA properties <sup>1</sup>	(44.1)	(19.4)
	130.9	141.0
EPRA vacancy rate	1.6%	1.3%

<sup>1</sup> In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

## 18 Investment property

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Total property portfolio £m
<b>Group</b>						
Carrying value						
At 1 January 2012	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5
Acquisitions	57.1	44.4	101.5	–	–	101.5
Capital expenditure	63.9	13.2	77.1	–	0.4	77.5
Interest capitalisation	4.2	0.7	4.9	–	–	4.9
Additions	125.2	58.3	183.5	–	0.4	183.9
Disposals	(16.1)	(0.2)	(16.3)	–	(137.9)	(154.2)
Depreciation	–	–	–	(0.1)	–	(0.1)
Transfers	(17.7)	1.2	(16.5)	–	16.5	–
Revaluation	136.3	38.1	174.4	0.9	–	175.3
Movement in grossing up of headlease liabilities	–	2.6	2.6	–	–	2.6
<b>At 31 December 2012</b>	<b>2,296.6</b>	<b>476.0</b>	<b>2,772.6</b>	<b>17.9</b>	<b>16.5</b>	<b>2,807.0</b>
At 1 January 2011	1,965.7	407.6	2,373.3	15.2	–	2,388.5
Acquisitions	85.5	6.1	91.6	–	–	91.6
Capital expenditure	32.5	6.5	39.0	–	2.0	41.0
Interest capitalisation	1.9	0.3	2.2	–	–	2.2
Additions	119.9	12.9	132.8	–	2.0	134.8
Disposals	(95.0)	–	(95.0)	–	–	(95.0)
Depreciation	–	–	–	(0.1)	–	(0.1)
Transfers	(58.0)	(66.3)	(124.3)	–	123.5	(0.8)
Revaluation	136.3	21.8	158.1	2.0	12.0	172.1
At 31 December 2011	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5
Adjustments from fair value to carrying value						
At 31 December 2012						
Fair value	2,353.9	471.3	2,825.2	17.9	16.5	2,859.6
Rents recognised in advance	(57.3)	(4.2)	(61.5)	–	–	(61.5)
Grossing up of headlease liabilities	–	8.9	8.9	–	–	8.9
<b>Carrying value</b>	<b>2,296.6</b>	<b>476.0</b>	<b>2,772.6</b>	<b>17.9</b>	<b>16.5</b>	<b>2,807.0</b>
At 31 December 2011						
Fair value	2,118.4	373.8	2,492.2	17.1	137.2	2,646.5
Rents recognised in advance	(49.5)	(4.1)	(53.6)	–	(0.8)	(54.4)
Grossing up of headlease liabilities	–	6.3	6.3	–	1.1	7.4
Carrying value	2,068.9	376.0	2,444.9	17.1	137.5	2,599.5

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2012 by external valuers on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2012). The valuers' opinion was primarily derived using comparable recent market transactions on arm's length terms. CBRE Limited valued properties at £2,829.1m (2011: £2,615.2m) and other valuers at £30.5m (2011: £31.3m). Of the properties revalued by CBRE, £17.9m (2011: £17.1m) relating to owner-occupied property was included within property, plant and equipment and £16.5m (2011: £137.2m) was included within non-current assets held for sale.

The total fees, including the fee for this assignment, earned by CBRE (or other companies forming part of the same group of companies within the UK) from the Group is less than 5.0% of its total UK revenues.

In 2011, the revaluation surplus in the income statement of £170.1m included the revaluation surplus for the non-current assets held for sale of £12.0m. The revaluation surplus for the owner-occupied property of £0.9m (2011: £2.0m) was included within the revaluation reserve.

In 2011, the transfer of £0.8m related to artwork held at the Group's properties which was previously capitalised as part of the property. However, as these items are transferable and would not necessarily be included with a sale of a property, they were transferred to property, plant and equipment (see note 19).

### Historical cost

	2012 £m	2011 £m
Investment property	2,205.8	2,055.5
Owner-occupied property	7.3	7.3
Assets held for sale	15.3	69.2
<b>Total property portfolio</b>	<b>2,228.4</b>	<b>2,132.0</b>

## 19 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
<b>Group</b>				
At 1 January 2012	17.1	1.5	0.8	19.4
Additions	–	–	0.4	0.4
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	0.9	–	–	0.9
<b>At 31 December 2012</b>	<b>17.9</b>	<b>1.5</b>	<b>0.9</b>	<b>20.3</b>
At 1 January 2011	15.2	0.7	0.8	16.7
Additions	–	–	0.3	0.3
Transfers	–	0.8	–	0.8
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	2.0	–	–	2.0
At 31 December 2011	17.1	1.5	0.8	19.4
Net book value				
Cost or valuation	17.9	1.5	2.2	21.6
Accumulated depreciation	–	–	(1.3)	(1.3)
<b>At 31 December 2012</b>	<b>17.9</b>	<b>1.5</b>	<b>0.9</b>	<b>20.3</b>
Net book value				
Cost or valuation	17.1	1.5	1.8	20.4
Accumulated depreciation	–	–	(1.0)	(1.0)
At 31 December 2011	17.1	1.5	0.8	19.4
<b>Company</b>				
At 1 January 2012	–	0.9	0.7	1.6
Additions	–	–	0.4	0.4
Depreciation	–	–	(0.3)	(0.3)
<b>At 31 December 2012</b>	<b>–</b>	<b>0.9</b>	<b>0.8</b>	<b>1.7</b>
At 1 January 2011	–	0.1	0.6	0.7
Additions	–	–	0.3	0.3
Transfers	–	0.8	–	0.8
Depreciation	–	–	(0.2)	(0.2)
At 31 December 2011	–	0.9	0.7	1.6
Net book value				
Cost or valuation	–	0.9	2.0	2.9
Accumulated depreciation	–	–	(1.2)	(1.2)
<b>At 31 December 2012</b>	<b>–</b>	<b>0.9</b>	<b>0.8</b>	<b>1.7</b>
Net book value				
Cost or valuation	–	0.9	1.6	2.5
Accumulated depreciation	–	–	(0.9)	(0.9)
At 31 December 2011	–	0.9	0.7	1.6

The artwork is periodically valued by Bonhams on the basis of open market value and the Directors consider whether any valuation movements have taken place prior to each year end. The latest valuation was carried out in November 2012.

The historic cost of the artwork in the Group at 31 December 2012 was £1.5m (2011: £1.5m) and £0.9m (2011: £0.9m) in the Company. See note 18 for the historic cost of owner-occupied property.

## 20 Investments

### Group

The Group has a 50% interest in the joint venture, Primister Limited and a 25% interest and 50% voting rights in the joint venture, Euro Mall Sterboholy a.s..

	2012 £m	2011 £m
At 1 January	9.7	8.4
Additions	0.1	0.1
Distributions received	(0.7)	(0.3)
Share of results of joint ventures (see note 10)	1.1	1.5
At 31 December	10.2	9.7

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture companies.

	2012 £m	2011 £m
Non-current assets	20.5	20.6
Current assets	1.3	2.1
Current liabilities	(3.4)	(4.3)
Non-current liabilities	(8.2)	(8.7)
Net assets	10.2	9.7
Income	2.9	3.5
Expenses	(1.8)	(2.0)
Profit for the year	1.1	1.5

### Company

	Subsidiaries £m	Joint ventures £m	Total £m
Shares in subsidiaries			
At 1 January 2011	712.3	–	712.3
Impairment reversal	124.9	–	124.9
At 31 December 2011	837.2	–	837.2
Additions	3.3	–	3.3
Impairment reversal	71.6	–	71.6
At 31 December 2012	912.1	–	912.1
Loans			
At 1 January 2011 and 31 December 2011	–	0.4	0.4
Loan repayment	–	(0.4)	(0.4)
	–	–	–
<b>At 31 December 2012</b>	<b>912.1</b>	<b>–</b>	<b>912.1</b>
At 31 December 2011	837.2	0.4	837.6

At 31 December 2012 and 31 December 2011, the carrying value of the investment in London Merchant Securities Ltd was reviewed in accordance with IAS 36, Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the Company income statement. In the opinion of the Directors, the most appropriate estimate of the recoverable amount is the net asset value of the subsidiaries. In view of the valuation movement relating to the investment properties, there has been an increase in the net asset value of the subsidiaries (2011: increase) which has been reflected as an impairment reversal in the Company income statement of £71.6m (2011: £124.9m), all of which relates to the investment in London Merchant Securities Ltd.

## 21 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
<b>Group</b>			
At 1 January 2012	(8.8)	3.6	(5.2)
Released during the year in other comprehensive income	0.2	–	0.2
Change in tax rates in other comprehensive income	0.1	–	0.1
Released during the year in the income statement	3.8	1.3	5.1
Change in tax rates in the income statement	0.6	(0.3)	0.3
<b>At 31 December 2012</b>	<b>(4.1)</b>	<b>4.6</b>	<b>0.5</b>
At 1 January 2011	(8.9)	3.0	(5.9)
Released during the year in other comprehensive income	0.6	–	0.6
Change in tax rates in other comprehensive income	0.1	–	0.1
(Provided)/released during the year in the income statement	(1.2)	0.8	(0.4)
Change in tax rates in the income statement	0.6	(0.2)	0.4
At 31 December 2011	(8.8)	3.6	(5.2)
<b>Company</b>			
At 1 January 2012	–	3.3	3.3
Provided during the year in the income statement	–	1.3	1.3
Change in tax rates in the income statement	–	(0.3)	(0.3)
<b>At 31 December 2012</b>	<b>–</b>	<b>4.3</b>	<b>4.3</b>
At 1 January 2011	–	2.6	2.6
Provided during the year in the income statement	–	0.8	0.8
Change in tax rates in the income statement	–	(0.1)	(0.1)
At 31 December 2011	–	3.3	3.3

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

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

## 22 Other receivables (non-current)

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Accrued income	55.5	50.1	–	–
Other	5.4	5.3	–	–
	<b>60.9</b>	55.4	<b>–</b>	–

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods, reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases. At 31 December 2012, the total rents recognised in advance were £61.5m (2011: £54.4m), with £6.0m of this amount (2011: £4.3m) included as current assets within trade and other receivables.

## 23 Trade and other receivables

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Trade receivables	8.6	9.0	–	–
Amounts owed by subsidiaries	–	–	791.3	544.5
Other receivables	13.3	13.0	0.1	0.7
Prepayments	14.8	16.5	0.4	0.7
Sales and social security taxes	5.9	2.2	0.5	0.5
Accrued income	8.2	4.3	0.1	–
	<b>50.8</b>	45.0	<b>792.4</b>	546.4

	2012 £m	2011 £m
Group trade receivables are split as follows:		
less than three months due	8.4	8.8
between three and six months due	0.2	0.2
	<b>8.6</b>	9.0

Group trade receivables includes a provision for bad debts as follows:

	2012 £m	2011 £m
At 1 January	0.5	0.9
Additions	0.3	0.6
Released	(0.2)	(1.0)
At 31 December	<b>0.6</b>	0.5

The provision for bad debts is split as follows:

	2012 £m	2011 £m
less than six months due	0.6	0.4
over twelve months due	–	0.1
	<b>0.6</b>	0.5

None of the amounts included in other receivables are past due and therefore no ageing has been shown.

## 24 Non-current assets held for sale

	2012 £m	2011 £m
Investment properties (see note 18)	<b>16.5</b>	137.5

In February 2013, the Group exchanged contracts to sell two freehold properties for a total of £16.5m after costs.

In February 2012, the Group signed a joint venture agreement with Grosvenor, the freeholder of 1-5 Grosvenor Place SW1, to consider the redevelopment of the site. As part of this transaction, the Group was granted a 150-year headlease and sold 50% of its ownership to the Grosvenor Estate for £60.0m, before costs. In addition, at 31 December 2011, the Group had exchanged contracts to sell two properties, Riverwalk House SW1 and 232–242 Vauxhall Bridge Road SW1, with completion conditional on a suitable planning permission, the receipt of which occurred during the second half of 2012.

Therefore, at 31 December 2012 and 31 December 2011, respectively, these properties were recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale. See note 18 for historic cost of non-current assets held for sale.

## 25 Trade and other payables

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Trade payables	7.9	7.1	6.1	5.8
Amounts owed to subsidiaries	–	–	89.9	150.2
Other payables	10.6	10.9	0.7	0.2
Accruals	25.7	17.1	10.9	8.2
Deferred income	36.3	35.8	0.1	–
	<b>80.5</b>	70.9	<b>107.7</b>	164.4



## 26 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	Onerous contract £m	National insurance on share-based payments £m	Total £m
<b>Group</b>					
At 1 January 2012	1.0	–	0.3	0.8	2.1
Provided in the income statement	0.6	–	–	1.0	1.6
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	(0.7)	–	(0.3)	(0.6)	(1.6)
<b>At 31 December 2012</b>	<b>0.9</b>	<b>0.4</b>	<b>–</b>	<b>1.2</b>	<b>2.5</b>
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.4	–	0.4	0.8
	<b>0.9</b>	<b>0.4</b>	<b>–</b>	<b>1.2</b>	<b>2.5</b>
At 1 January 2011	1.1	–	0.4	0.6	2.1
(Released)/provided in the income statement	(0.1)	–	–	0.3	0.2
Utilised in year	–	–	(0.1)	(0.1)	(0.2)
At 31 December 2011	1.0	–	0.3	0.8	2.1
Due within one year	1.0	–	0.1	0.5	1.6
Due after one year	–	–	0.2	0.3	0.5
	1.0	–	0.3	0.8	2.1
<b>Company</b>					
At 1 January 2012	–	–	0.3	0.7	1.0
Provided in the income statement	–	–	–	0.9	0.9
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	–	–	(0.3)	(0.6)	(0.9)
<b>At 31 December 2012</b>	<b>–</b>	<b>0.4</b>	<b>–</b>	<b>1.0</b>	<b>1.4</b>
Due within one year	–	–	–	0.6	0.6
Due after one year	–	0.4	–	0.4	0.8
	<b>–</b>	<b>0.4</b>	<b>–</b>	<b>1.0</b>	<b>1.4</b>
At 1 January 2011	–	–	0.4	0.6	1.0
Provided in the income statement	–	–	–	0.2	0.2
Utilised in year	–	–	(0.1)	(0.1)	(0.2)
At 31 December 2011	–	–	0.3	0.7	1.0
Due within one year	–	–	0.1	0.4	0.5
Due after one year	–	–	0.2	0.3	0.5
	<b>–</b>	<b>–</b>	<b>0.3</b>	<b>0.7</b>	<b>1.0</b>

The potential liability for cash-settled share options is based on the valuation carried out at each balance sheet date (see note 14). Provisions are also made for those parts of the executive Directors' bonuses which are to be deferred in shares (see report of the Remuneration Committee).

The onerous contract, which was settled in 2012, reflected the discounted present value of future net payments (the excess of rent payable over rent receivable) under a lease at the Group's previous head office which was due to expire in August 2014.

National insurance is payable on gains made by employees on the exercise of share-based payments granted to them. The eventual liability to national insurance is dependent on:

- the market price of the Company's shares at the date of exercise;
- the number of equity instruments that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

## 27 Borrowings and derivative financial instruments

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
<b>Current liabilities</b>				
Unsecured bank loan	–	31.4	–	31.4
Loan notes	–	1.1	–	1.1
	–	32.5	–	32.5
<b>Non-current liabilities</b>				
2.75% unsecured convertible bonds 2016	165.0	162.4	–	–
6.5% secured bonds 2026	191.4	192.2	–	–
Intercompany loan	–	–	165.0	162.1
Bank loans	432.2	473.5	404.2	197.7
3.99% secured loan	81.7	–	81.7	–
Leasehold liabilities	8.9	7.4	–	–
	879.2	835.5	650.9	359.8
Derivative financial instruments expiring in greater than one year	54.3	51.9	50.2	30.7
<b>Total liabilities</b>	<b>933.5</b>	<b>919.9</b>	<b>701.1</b>	<b>423.0</b>
<b>Secured</b>				
Bank loans	432.2	473.5	404.2	197.7
3.99% secured loan	81.7	–	81.7	–
6.5% secured bonds 2026	191.4	192.2	–	–
	705.3	665.7	485.9	197.7
<b>Unsecured</b>				
Loan notes	–	1.1	–	1.1
Bank loans	–	31.4	–	31.4
2.75% unsecured convertible bonds 2016	165.0	162.4	–	–
Long-term intercompany loan	–	–	165.0	162.1
	165.0	194.9	165.0	194.6
<b>Gross debt</b>	<b>870.3</b>	<b>860.6</b>	<b>650.9</b>	<b>392.3</b>
Leasehold liabilities	8.9	7.4	–	–
<b>Total debt</b>	<b>879.2</b>	<b>868.0</b>	<b>650.9</b>	<b>392.3</b>
Cash and cash equivalents	(4.4)	(3.5)	(1.2)	–
<b>Net debt</b>	<b>874.8</b>	<b>864.5</b>	<b>649.7</b>	<b>392.3</b>

At 31 December 2012, £1,510.6m (2011: £1,551.9m) and £174.5m (2011: £nil) of the Group's properties were subject to a fixed charge to secure the Group's bank loans and the 3.99% secured loan, respectively. In addition, the 2026 bonds are secured by a floating charge over a number of the Group's subsidiary companies which contain £521.0m (2011: £477.0m) of the Group's properties.

At 31 December 2012, £1,409.0m (2011: £945.3m) of the Group's properties were subject to a fixed charge to secure the Company's bank loans, and £174.5m (2011: £nil) to secure the 3.99% secured loan.

## 27 Borrowings and derivative financial instruments (continued)

IFRS 7, Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the anticipated undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
<b>Group</b>							
<b>At 31 December 2012</b>							
Bank loans	–	124.5	91.0	–	194.0	28.0	437.5
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
2.75% unsecured convertible bonds 2016	–	–	–	175.0	–	–	175.0
3.99% secured loan	–	–	–	–	–	83.0	83.0
Total on maturity	–	124.5	91.0	175.0	194.0	286.0	870.5
Leasehold liabilities	0.7	0.7	0.7	0.7	0.7	62.6	66.1
Interest on gross debt	19.1	18.9	19.2	17.6	14.7	108.6	198.1
Effect of interest rate swaps	13.2	13.8	12.5	10.2	8.1	7.2	65.0
<b>Gross loan commitments</b>	<b>33.0</b>	<b>157.9</b>	<b>123.4</b>	<b>203.5</b>	<b>217.5</b>	<b>464.4</b>	<b>1,199.7</b>
At 31 December 2011							
Bank loans	–	274.0	65.0	40.0	–	98.0	477.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
2.75% unsecured convertible bonds 2016	–	–	–	–	175.0	–	175.0
Loan notes	1.1	–	–	–	–	–	1.1
Unsecured loans	31.4	–	–	–	–	–	31.4
Total on maturity	32.5	274.0	65.0	40.0	175.0	273.0	859.5
Leasehold liabilities	0.7	0.7	0.7	0.7	0.7	60.3	63.8
Interest on gross debt	21.4	19.3	18.2	18.1	15.9	107.4	200.3
Effect of interest rate swaps	14.8	10.8	8.0	5.0	3.3	5.1	47.0
<b>Gross loan commitments</b>	<b>69.4</b>	<b>304.8</b>	<b>91.9</b>	<b>63.8</b>	<b>194.9</b>	<b>445.8</b>	<b>1,170.6</b>

Reconciliation to total debt:

	Gross loan commitments £m	Adjustments:				Total debt £m
		Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	
<b>Group</b>						
<b>At 31 December 2012</b>						
Maturing in:						
< 1 year	33.0	(19.1)	(13.2)	(0.7)	–	–
1 to 2 years	157.9	(18.9)	(13.8)	(0.7)	(0.3)	124.2
2 to 3 years	123.4	(19.2)	(12.5)	(0.7)	(1.2)	89.8
3 to 4 years	203.5	(17.6)	(10.2)	(0.7)	(10.0)	165.0
4 to 5 years	217.5	(14.7)	(8.1)	(0.7)	(3.8)	190.2
> 5 years	464.4	(108.6)	(7.2)	(53.7)	15.1	310.0
	<b>1,199.7</b>	<b>(198.1)</b>	<b>(65.0)</b>	<b>(57.2)</b>	<b>(0.2)</b>	<b>879.2</b>
At 31 December 2011						
Maturing in:						
< 1 year	69.4	(21.4)	(14.8)	(0.7)	–	32.5
1 to 2 years	304.8	(19.3)	(10.8)	(0.7)	(0.3)	273.7
2 to 3 years	91.9	(18.2)	(8.0)	(0.7)	(0.6)	64.4
3 to 4 years	63.8	(18.1)	(5.0)	(0.7)	(1.4)	38.6
4 to 5 years	194.9	(15.9)	(3.3)	(0.7)	(12.6)	162.4
> 5 years	445.8	(107.4)	(5.1)	(52.9)	16.0	296.4
	<b>1,170.6</b>	<b>(200.3)</b>	<b>(47.0)</b>	<b>(56.4)</b>	<b>1.1</b>	<b>868.0</b>

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
<b>Company</b>							
<b>At 31 December 2012</b>							
Bank loans	–	124.5	91.0	–	194.0	–	409.5
Long-term intercompany loan	–	–	–	175.0	–	–	175.0
3.99% secured loan	–	–	–	–	–	83.0	83.0
Total on maturity	–	124.5	91.0	175.0	194.0	83.0	667.5
Interest on debt	7.5	7.4	7.5	5.9	2.9	17.0	48.2
Effect of interest rate swaps	12.4	13.0	11.7	9.5	7.5	6.7	60.8
<b>Gross loan commitments</b>	<b>19.9</b>	<b>144.9</b>	<b>110.2</b>	<b>190.4</b>	<b>204.4</b>	<b>106.7</b>	<b>776.5</b>
At 31 December 2011							
Bank loans	–	26.0	65.0	40.0	–	70.0	201.0
Long-term intercompany loan	–	–	–	–	175.0	–	175.0
Loan notes	1.1	–	–	–	–	–	1.1
Unsecured loans	31.4	–	–	–	–	–	31.4
Total on maturity	32.5	26.0	65.0	40.0	175.0	70.0	408.5
Interest on debt	7.1	7.0	6.5	6.2	4.0	1.6	32.4
Effect of interest rate swaps	7.0	6.9	5.5	3.5	2.6	2.1	27.6
<b>Gross loan commitments</b>	<b>46.6</b>	<b>39.9</b>	<b>77.0</b>	<b>49.7</b>	<b>181.6</b>	<b>73.7</b>	<b>468.5</b>

Reconciliation to total debt:

	Gross loan commitments £m	Adjustments:				Total debt £m
		Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	
<b>Company</b>						
<b>At 31 December 2012</b>						
Maturing in:						
< 1 year	19.9	(7.5)	(12.4)	–	–	–
1 to 2 years	144.9	(7.4)	(13.0)	–	(0.3)	124.2
2 to 3 years	110.2	(7.5)	(11.7)	–	(1.2)	89.8
3 to 4 years	190.4	(5.9)	(9.5)	–	(10.0)	165.0
4 to 5 years	204.4	(2.9)	(7.5)	–	(3.8)	190.2
> 5 years	106.7	(17.0)	(6.7)	–	(1.3)	81.7
	<b>776.5</b>	<b>(48.2)</b>	<b>(60.8)</b>	<b>–</b>	<b>(16.6)</b>	<b>650.9</b>
At 31 December 2011						
Maturing in:						
< 1 year	46.6	(7.1)	(7.0)	–	–	32.5
1 to 2 years	39.9	(7.0)	(6.9)	–	(0.1)	25.9
2 to 3 years	77.0	(6.5)	(5.5)	–	(0.6)	64.4
3 to 4 years	49.7	(6.2)	(3.5)	–	(1.4)	38.6
4 to 5 years	181.6	(4.0)	(2.6)	–	(12.9)	162.1
> 5 years	73.7	(1.6)	(2.1)	–	(1.2)	68.8
	468.5	(32.4)	(27.6)	–	(16.2)	392.3

#### Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
<b>Group</b>							
<b>At 31 December 2012</b>							
At 31 December 2011	10.0	201.0	60.0	185.0	–	20.0	476.0
<b>Company</b>							
<b>At 31 December 2012</b>							
At 31 December 2011	10.0	74.0	60.0	185.0	–	20.0	349.0

## 27 Borrowings and derivative financial instruments (continued)

### Fixed interest rate and hedged debt

At 31 December 2012 and 2011, the Group's fixed rate debt included the secured bonds 2026 and the unsecured convertible bonds 2016, together with the instruments used to hedge its floating rate debt. Additionally, at 31 December 2012, it also comprised a secured loan expiring in 2024 which was issued during the year. At 31 December 2012 and 31 December 2011, the Company's fixed rate debt comprised the instruments used to hedge its floating rate debt and the long-term intercompany loan.

### Secured Bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the Secured Bonds 2026 were included at fair value less issue costs. This difference between fair value and principal value is being amortised through the income statement. The fair value shown in note 28 was determined by the ask-price of £122.28 per £100 as at 31 December 2012 (2011: £122.50 per £100). The carrying value at 31 December 2012 was £191.4m (2011: £192.2m).

### Unsecured Bonds 2016

In June 2011 the Group issued a convertible bond. The unsecured instrument pays a coupon of 2.75% until July 2016. In accordance with IFRS, the equity and debt components of the bond are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond. As a result, £165.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9.6m, which represents the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is amortised through the income statement from the date of issue. Issue costs of £4.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bond. The issue costs apportioned to equity of £0.2m are not amortised. The fair value shown in note 28 was determined by the ask-price of £113.03 per £100 as at 31 December 2012 (2011: £99.20 per £100). The carrying value at 31 December 2012 was £165.0m (2011: £162.4m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(9.6)
Debt component on issue	165.4
Unamortised issue costs	(3.2)
Amortisation of fair value adjustment	2.8
Carrying amount included in total debt	165.0

### Secured fixed rate loan

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value shown in note 28 was determined by comparing the discounted future cash flows using the contracted yield with those of a prevailing market gilt. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2012 was £81.7m (2011: £nil).

### Hedged debt

The hedged debt consists of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2012 for the period to the contracted expiry dates.

During the year, the Group entered into a £65m forward starting interest rate swap effective from 28 March 2013. This swap is not included in the 31 December 2012 figures above, but the financial impact from the effective date onwards is included in the relevant tables in this note and note 28.

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
<b>At 31 December 2012</b>						
Interest rate swaps	368.0	3.600	5.76	340.0	3.606	5.72
<b>At 31 December 2011</b>						
Interest rate swaps	493.0	4.055	4.97	265.0	3.686	5.69

## Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's gross debt was:

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
<b>Group</b>						
<b>At 31 December 2012</b>						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	64.2	368.0	–	432.2	4.77	3.14
6.5% secured bonds 2026 <sup>1</sup>	–	–	191.4	191.4	6.50	13.22
2.75% unsecured convertible bonds 2016 <sup>1</sup>	–	–	165.0	165.0	3.99	3.54
3.99% secured loan	–	–	81.7	81.7	3.99	11.81
	64.2	368.0	438.1	870.3	4.88	6.07
At 31 December 2011						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	–	473.5	–	473.5	4.87	2.61
6.5% secured bonds 2026 <sup>1</sup>	–	–	192.2	192.2	6.50	14.22
2.75% unsecured convertible bonds 2016 <sup>1</sup>	–	–	162.4	162.4	3.99	4.54
Loan notes	1.1	–	–	1.1	0.25	0.09
Unsecured loans	11.9	19.5	–	31.4	1.86	0.47
	13.0	493.0	354.6	860.6	4.91	5.29
<b>Company</b>						
<b>At 31 December 2012</b>						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	64.2	340.0	–	404.2	4.79	2.98
Intercompany loan	–	–	165.0	165.0	3.99	3.54
3.99% secured loan	–	–	81.7	81.7	3.99	11.81
	64.2	340.0	246.7	650.9	4.48	4.22
At 31 December 2011						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	–	197.7	–	197.7	5.91	3.76
Intercompany loan	–	–	162.1	162.1	3.99	4.54
Loan notes	1.1	–	–	1.1	0.25	0.09
Unsecured loans	11.9	19.5	–	31.4	1.86	0.47
	13.0	217.2	162.1	392.3	4.76	3.83

<sup>1</sup> The weighted average costs of debt for the secured bonds and the unsecured convertible bonds are based on the nominal amounts of £175m.

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2012 Receivable £m	2012 Payable £m	2011 Receivable £m	2011 Payable £m
<b>Group</b>				
Maturing in:				
< 1 year	2.3	(15.5)	5.2	(20.0)
1 to 2 years	2.7	(16.6)	4.3	(15.1)
2 to 3 years	3.8	(16.3)	4.4	(12.2)
3 to 4 years	4.8	(14.9)	4.0	(9.0)
4 to 5 years	6.0	(14.1)	4.9	(8.3)
> 5 years	10.9	(18.1)	18.4	(23.6)
Gross contractual cash flows	30.5	(95.5)	41.2	(88.2)
<b>Company</b>				
Maturing in:				
< 1 year	2.1	(14.5)	2.8	(9.8)
1 to 2 years	2.6	(15.6)	2.9	(9.8)
2 to 3 years	3.6	(15.3)	3.0	(8.5)
3 to 4 years	4.4	(13.9)	3.0	(6.5)
4 to 5 years	5.6	(13.1)	3.7	(6.3)
> 5 years	10.2	(16.9)	10.3	(12.4)
Gross contractual cash flows	28.5	(89.3)	25.7	(53.3)

## 28 Financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
<b>Group</b>					
Financial assets					
Cash and cash equivalents	–	4.4	–	4.4	4.4
Other assets – current <sup>1</sup>	–	30.1	–	30.1	30.1
	–	34.5	–	34.5	34.5
Financial liabilities					
Borrowings due after one year	–	–	(441.1)	(441.1)	(446.4)
6.5% secured bonds 2026	–	–	(191.4)	(191.4)	(214.0)
2.75% unsecured convertible bonds 2016	–	–	(165.0)	(165.0)	(188.2)
3.99% secured loan	–	–	(81.7)	(81.7)	(82.0)
Derivative financial instruments	(54.3)	–	–	(54.3)	(54.3)
Other liabilities – current <sup>2</sup>	–	–	(44.2)	(44.2)	(44.2)
	(54.3)	–	(923.4)	(977.7)	(1,029.1)
<b>At 31 December 2012</b>	<b>(54.3)</b>	<b>34.5</b>	<b>(923.4)</b>	<b>(943.2)</b>	<b>(994.6)</b>
Financial assets					
Cash and cash equivalents	–	3.5	–	3.5	3.5
Other assets – current <sup>1</sup>	–	26.3	–	26.3	26.3
	–	29.8	–	29.8	29.8
Financial liabilities					
Borrowings due within one year	–	–	(32.5)	(32.5)	(32.5)
Borrowings due after one year	–	–	(480.9)	(480.9)	(484.4)
6.5% Secured Bonds 2026	–	–	(192.2)	(192.2)	(214.4)
2.75% unsecured convertible bonds 2016	–	–	(162.4)	(162.4)	(164.0)
Derivative financial instruments	(51.9)	–	–	(51.9)	(51.9)
Other liabilities – current <sup>2</sup>	–	–	(35.1)	(35.1)	(35.1)
	(51.9)	–	(903.1)	(955.0)	(982.3)
At 31 December 2011	(51.9)	29.8	(903.1)	(925.2)	(952.5)
<b>Company</b>					
Financial assets					
Cash and cash equivalents	–	1.2	–	1.2	1.2
Other assets – current <sup>1</sup>	–	791.5	–	791.5	791.5
	–	792.7	–	792.7	792.7
Financial liabilities					
Borrowings due after one year	–	–	(404.2)	(404.2)	(409.5)
Long-term intercompany loan	–	–	(165.0)	(165.0)	(188.2)
3.99% secured loan	–	–	(81.7)	(81.7)	(82.0)
Derivative financial instruments	(50.2)	–	–	(50.2)	(50.2)
Other liabilities – current <sup>2</sup>	–	(89.9)	(17.7)	(107.6)	(107.6)
	(50.2)	(89.9)	(668.6)	(808.7)	(837.5)
<b>At 31 December 2012</b>	<b>(50.2)</b>	<b>702.8</b>	<b>(668.6)</b>	<b>(16.0)</b>	<b>(44.8)</b>
Financial assets					
Other assets – current <sup>1</sup>	–	545.2	–	545.2	545.2
	–	545.2	–	545.2	545.2
Financial liabilities					
Borrowings due within one year	–	–	(32.5)	(32.5)	(32.5)
Borrowings due after one year	–	–	(197.7)	(197.7)	(201.0)
Long-term intercompany loan	–	–	(162.1)	(162.1)	(164.0)
Derivative financial instruments	(30.7)	–	–	(30.7)	(30.7)
Other liabilities – current <sup>2</sup>	–	(150.2)	(14.2)	(164.4)	(164.4)
	(30.7)	(150.2)	(406.5)	(587.4)	(592.6)
At 31 December 2011	(30.7)	395.0	(406.5)	(42.2)	(47.4)

<sup>1</sup> Other assets includes all amounts shown as trade and other receivables in note 23 except prepayments and sales and social security taxes of £20.7m (2011: £18.7m) for the Group and £0.9m (2011: £1.2m) for the Company. All amounts are non-interest bearing and are receivable within one year.

<sup>2</sup> Other liabilities for the Group include all amounts shown as trade and other payables in note 25 except deferred income of £36.3m (2011: £35.8m) and £0.1m (2011: £nil) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to total borrowings and derivatives:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Net financial assets and liabilities	(943.2)	(925.2)	(16.0)	(42.2)
Other assets – current	(30.1)	(26.3)	(791.5)	(545.2)
Other liabilities – current	44.2	35.1	107.6	164.4
Cash and cash equivalents	(4.4)	(3.5)	(1.2)	–
Total net borrowings and derivatives	(933.5)	(919.9)	(701.1)	(423.0)

All the Group's and Company's financial liabilities designated at fair value through profit and loss are defined as level 2, in accordance with IFRS 7, as they are derived from inputs other than quoted prices which are observable from the liability. There have been no transfers between level 1 and level 2 in 2012 or 2011.

### Financial instruments – risk management

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

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

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 30 to 33 and page 84.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

The Company has the same risk profile as the Group (except tenant credit risk, which does not exist in the Company) and therefore no separate analysis has been provided in relation to the Company.

### Principal financial instruments

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

### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to executive management.

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

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from its lease contracts. It is Group policy to assess the credit risk of new tenants before entering into contracts. The Board has established a credit committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings, when available, and, in some cases, forecast information and bank and trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained.

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time. The quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 23.

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

#### Market risk

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

#### Fair value and cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2012, the proportion of fixed debt held by the Group was above this range at 92%. During both 2012 and 2011, the Group's borrowings at variable rate were denominated in sterling.



## 28 Financial assets and liabilities (continued)

The Group monitors the interest rate exposure on a regular basis. A sensitivity analysis was performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates and this would result in an increase of £0.3m (2011: £0.1m) or a decrease of £0.3m (2011: £0.1m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 27). The Group generally raises long-term borrowings at floating rates and swaps them into fixed.

### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient headroom in its loan facilities to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain committed facilities to meet the expected requirements. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further explained in the 'fair value and cash flow interest rate risk' section above.

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

The Group's loan facilities are spread across a range of banks so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

### Capital disclosures

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2012, the Group's strategy, which was unchanged from 2011, was to maintain the NAV gearing below 80% in normal circumstances. The three gearing ratios are defined on page 150 and are derived below.

### NAV gearing

	2012 £m	2011 £m
Net debt	874.8	864.5
Net assets	1,918.0	1,714.5
NAV gearing	45.6%	50.4%

### Loan-to-value ratio

	2012 £m	2011 £m
Net debt	874.8	864.5
Fair value adjustment of secured bonds	(17.8)	(18.6)
Unamortised issue and arrangement costs	11.2	7.9
Leasehold liabilities	(8.9)	(7.4)
Drawn facilities	859.3	846.4
Fair value of property portfolio	2,859.6	2,646.5
Loan-to-value ratio	30.0%	32.0%

## Interest cover ratio

	2012 £m	2011 £m
Gross property income	124.8	125.5
Surrender premiums	(0.3)	(2.4)
Ground rent	(0.9)	(0.8)
Gross rental income net of ground rent	123.6	122.3
Net finance costs	40.8	43.2
Foreign exchange gain	0.3	–
Net pension return	0.1	0.2
Finance lease costs	(0.4)	(0.5)
Amortisation of fair value adjustment to secured bonds	0.8	0.8
Amortisation of issue and arrangement costs	(3.1)	(2.0)
Non-utilisation fees	(3.3)	(1.9)
Net interest payable	35.2	39.8
Interest cover ratio	351%	307%

## 29 Equity

The authorised share capital was £6.04m at 1 January 2011, 31 December 2011 and 31 December 2012. The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 89 to 99 and note 14. The movement in the number of 5p ordinary shares in issue is shown in the table below:

### Number of shares in issue

	Number
At 1 January 2011	101,200,297
Issued as a result of scrip dividends	296,225
Issued as a result of awards vesting under the Group's Performance Share Plan	144,460
At 31 December 2011	101,640,982
Issued as a result of scrip dividends	109,416
Issued as a result of awards vesting under the Group's Performance Share Plan	204,508
Issued as a result of the exercise of share options <sup>1</sup>	59,325
<b>At 31 December 2012</b>	<b>102,014,231</b>

<sup>1</sup> Proceeds from these issues were £0.4m (2011: £nil).

## 30 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS). The Company balance also includes its impairment of the investment in LMS.
Foreign exchange	Gains or losses arising on retranslating the net assets of overseas operations.
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and long-term intercompany loan for the Company.
Retained earnings	Fair value of equity instruments granted but not yet exercised under share-based payments. Cumulative net gains and losses recognised in the Group income statement.

### Other reserves

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Merger reserve	910.5	910.5	668.3	596.7
Foreign exchange translation reserve	–	4.2	–	–
Revaluation reserve	9.9	8.7	–	–
Equity portion of the convertible bonds	9.4	9.4	–	–
Equity portion of long-term intercompany loan	–	–	9.4	–
Fair value of equity instruments under share-based payments	4.2	3.8	4.2	3.8
	<b>934.0</b>	<b>936.6</b>	<b>681.9</b>	<b>600.5</b>

### 31 Profit for the year attributable to members of Derwent London plc

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. Profit for the year includes a profit of £128.5m (2011: £90.3m) which has been dealt with in the accounts of the Company.

### 32 Dividends

	Payment date	Dividend per share			2012 £m	2011 £m
		PID p	Non-PID p	Total p		
<b>Current year</b>						
2012 final dividend	14 June 2013	18.75	5.00	23.75	–	–
2012 interim dividend	1 November 2012	9.95	–	9.95	<b>10.2</b>	–
Distribution of current year profit		28.70	5.00	33.70	<b>10.2</b>	–
<b>Prior year</b>						
2011 final dividend	15 June 2012	18.10	3.80	21.90	<b>22.3</b>	–
2011 interim dividend	4 November 2011	9.45	–	9.45	–	9.6
Distribution of prior year profit		27.55	3.80	31.35	<b>22.3</b>	9.6
2010 final dividend	16 June 2011	20.25	–	20.25	–	20.5
Dividends as reported in the Group statement of changes in equity					<b>32.5</b>	30.1
2012 interim dividend withholding tax	14 January 2013				<b>(1.5)</b>	–
2012 interim scrip dividend	1 November 2012				<b>(0.7)</b>	–
2011 final scrip dividend	15 June 2012				<b>(1.3)</b>	–
2011 interim dividend withholding tax	27 January 2012				<b>1.4</b>	(1.4)
2011 interim scrip dividend	4 November 2011				–	(2.3)
2010 final scrip dividend	16 June 2011				–	(2.4)
2010 interim dividend withholding tax	14 January 2011				–	1.4
Dividends paid as reported in the Group cash flow statement					<b>30.4</b>	25.4

### 33 Cash and cash equivalents

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Short-term deposits	<b>4.4</b>	3.5	<b>1.2</b>	–

### 34 Total return

	2012 %	2011 %
Total return	<b>12.7</b>	17.4

### 35 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2012 and not provided for in the accounts amounted to £78.4m (2011: £17.0m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties. At 31 December 2012 and 31 December 2011, there were no obligations for the purchase, repair or maintenance of investment properties.

### 36 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31 December 2012 and 31 December 2011 there was no liability that could arise for the Company from the cross guarantees.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

### 37 Post balance sheet events

In February 2013, the Group exchanged contracts to sell two freehold properties for a total of £16.5m after costs. These transactions will realise neither a profit nor a loss on disposal.

### 38 Leases

	2012 £m	2011 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	<b>124.1</b>	117.8
later than one year and not later than five years	<b>438.9</b>	333.7
later than five years	<b>809.4</b>	839.8
	<b>1,372.4</b>	1,291.3

	2012 £m	2011 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	0.7	0.7
later than one year and not later than five years	2.8	2.8
later than five years	62.6	60.3
	<b>66.1</b>	63.8
Future contingent rent payable on finance leases	<b>(17.6)</b>	(23.3)
Future finance charges on finance leases	<b>(39.6)</b>	(33.1)
Present value of finance lease liabilities	<b>8.9</b>	7.4
Present value of minimum finance lease obligations:		
later than one year and not later than five years	0.5	0.1
later than five years	8.4	7.3
	<b>8.9</b>	7.4

In accordance with IAS 17, Leases, the minimum lease payments are allocated as follows:

	2012 £m	2011 £m
Finance charge	0.4	0.5
Contingent rent	0.5	0.3
Total	<b>0.9</b>	0.8

The Group has over 850 leases granted to its tenants. These vary depending on the individual tenant and the respective property and demise but typically are let for a term of five to 15 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases granted during 2012 was 13.5 years (2011: 10.0 years). Of these leases, on a weighted average basis, 94% (2011: 74%) included a rent free or half rent period.

### 39 Principal operating companies

The principal operating companies within the Group at 31 December 2012 are:

	Ownership	Principal activity
Subsidiaries		
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Central Cross Limited <sup>1</sup>	100%	Property investment
Derwent Henry Wood Limited <sup>1</sup>	100%	Property investment
Derwent London Grafton Limited <sup>1</sup>	100%	Property investment
Derwent London Howland Limited <sup>1</sup>	100%	Property investment
Derwent London Page Street Limited <sup>1</sup>	100%	Property investment
Derwent Valley Central Limited <sup>1</sup>	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited <sup>1</sup>	100%	Property investment
Derwent Valley Property Developments Limited <sup>1</sup>	100%	Property investment
Derwent Valley Property Investments Limited <sup>1</sup>	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Caledonian Properties Limited	100%	Property trading
Derwent London Capital (Jersey) Limited <sup>1</sup>	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited <sup>1</sup>	100%	Holding company

<sup>1</sup> Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

Joint ventures		
Primister Limited	50%	Property investment
Euro Mall Sterboholy a.s.	25%	Property investment

The Company controls 50% of the voting rights of each of the joint ventures. All are accounted for and disclosed in accordance with IAS 31, Interests in Joint Ventures.

All of the above companies are registered and operate in England and Wales, except for Euro Mall Sterboholy a.s., which is registered in the Czech Republic and Derwent London Capital (Jersey) Limited, which is registered in Jersey.

## 40 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 89 to 99 and note 12. Other related party transactions are as follows:

### Group

Up until 1 October 2011, Messrs J.D. Burns and S.P. Silver were partners in The Pilcher Hershman Partnership (LLP), estate agents, when they resigned. After their resignation they held no further interest in the partnership. The partnership received fees at a commercial rate in respect of the letting, acquisition and disposal of certain properties owned by the Group of £0.5m in the nine months to 30 September 2011. Procedures had been established whereby the Audit Committee was able to verify that neither Messrs Burns nor Silver derived any direct benefit from these fees.

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which occupies offices owned by the Group for which they paid a commercial rent of £0.3m (2011: £0.2m). The Group also contributed £0.1m (2011: £0.1m) to LMS Capital plc's running costs.

In 2011, the Group paid fees at a commercial rate in respect of the disposal of certain properties of £0.1m to Hamilton Investment Properties Ltd, a company of which Mr S.P. Silver's son was a Director.

There are no outstanding balances owed to the Group with respect to all of the above transactions.

At 31 December 2012, included within other receivables in note 23 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £12.6m (2011: £10.2m). The majority of this amount represents advances to the Portman Estate, relating to proceeds received upon the disposal of jointly owned properties. This debt will be discharged by a distribution to shareholders.

### Company

The Company received interest from some of its subsidiaries during the year. These transactions are summarised below:

	Interest (payable)/receivable		Dividend received		Balance owed/(owing)	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
<b>Related party</b>						
Derwent Central Cross Limited	7.7	6.9	–	–	151.5	146.8
Derwent Henry Wood Limited	2.6	2.3	–	–	49.1	49.0
Derwent London Grafton Limited	1.0	–	–	–	37.7	–
Derwent London Howland Limited	3.4	–	–	–	128.1	–
Derwent Valley Central Limited	3.8	4.3	100.0	–	207.4	143.2
Derwent Valley London Limited	5.8	5.0	–	–	114.9	108.5
Derwent Valley Property Developments Limited	4.3	3.3	–	–	96.0	92.5
Derwent Valley Property Investments Limited	(3.9)	(2.6)	–	–	(77.5)	(73.4)
Derwent London Page Street Limited	0.1	–	–	–	6.7	0.4
Derwent London Capital (Jersey) Limited <sup>1</sup>	(6.5)	(2.8)	–	–	(164.9)	(164.8)
Derwent Valley Railway Company <sup>2</sup>	–	–	–	–	(0.2)	(0.2)
London Merchant Securities Limited <sup>3</sup>	(3.1)	(4.4)	–	–	(12.4)	(69.8)
	<b>15.2</b>	<b>12.0</b>	<b>100.0</b>	<b>–</b>	<b>536.4</b>	<b>232.2</b>

<sup>1</sup> The payable balance at 31 December 2012 includes the long-term intercompany loan of £165.0m (2011: £162.1) included in note 27.

<sup>2</sup> Dormant company.

<sup>3</sup> Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the long-term loan from Derwent London Capital (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

## 41 Significant accounting policies

### Basis of consolidation

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiary undertakings are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences and until the date control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IAS 31, Interests in Joint Ventures, and following the procedures for this method set out in IAS 28, Investments in Associates. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

### Gross property income

Gross property income arises from two main sources:

- (i) Rental income – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with SIC 15, Operating Leases – Incentives. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free or half rent periods or capital contributions in lieu of rent free periods and the effect of payments received from tenants on the grant of leases.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IAS 17, Leases. Minimum lease payments receivable, again defined in IAS 17, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

- (ii) Surrender premiums – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement.

### Other income

Other income consists of commissions and fees arising from the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of service.

### Borrowing costs

In accordance with IAS 23, Borrowing Costs, the Group capitalises interest on development expenditure at the average cost of borrowings during the period.

### Expenses

- (i) Lease payments – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.
- (ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.
- (iii) 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, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.
- (iv) Other property expenditure – Vacant property costs and other property costs are expensed in the year to which they relate.

### Employee benefits

- (i) Share-based remuneration
  - (a) Equity-settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of options granted is calculated using a binomial lattice pricing model. Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.
  - (b) Cash-settled – For cash-settled share-based payments, a liability is recognised based on the current fair value determined at each balance sheet date. The movement in the current fair value is taken to the Group income statement.

## 41 Significant accounting policies (continued)

### Employee benefits (continued)

- (i) Pensions
  - (a) Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.
  - (b) Defined benefit plans – The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the Group statement of comprehensive income.

### Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

### Investment property

- (i) Valuation – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive debtors. Fair value is the amount for which an investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.  
  
Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.
- (ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23, Borrowing Costs, interest that is directly attributable to such expenditure is capitalised using the Group's average cost of borrowings during each quarter.
- (iii) Disposal – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received.
- (iv) Development – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

### Property, plant and equipment

- (i) Owner-occupied property – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.
- (ii) Artwork – Artwork is stated at revalued amounts on the basis of open market value.
- (iii) Other – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less the estimated residual value of the individual assets, over their expected useful lives.

### Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

### Financial assets

- (i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- (ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

### Financial liabilities

- (i) Bank loans and overdrafts – Bank loans and overdrafts are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.
- (ii) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bondholders is expensed in the year to which it relates.
- (iii) Convertible bonds – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.
- (iv) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.
- (v) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement.

- (vi) Trade payables – Trade payables are recognised and carried at the original transaction value.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historic cost of the properties and any available capital losses.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

### Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

### Foreign currency translation

On consolidation, the assets and liabilities of foreign entities are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statement and cash flows are translated at the average rate for the period. Exchange differences arising from the retranslation of long-term monetary items forming part of the Group's net investment in foreign entities are recognised in the foreign exchange reserve on consolidation.

Transactions entered into by Group entities in currencies other than the entity's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the Group income statement.



# PRINCIPAL PROPERTIES

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m <sup>2</sup>
<b>West End: Central (66%)</b>				
<b>Fitzrovia/Euston (38%)</b>				
1-2 Stephen Street & 18-30 Tottenham Court Road W1	100+	O/R/L	F	23,700
132-142 Hampstead Road NW1	25-50	O/I	F	20,200
80 Charlotte Street W1	75-100	O	F	18,600
8 Fitzroy Street W1	100+	O	F	13,700
Qube, 90 Whitfield Street W1	100+	O/R/Re	F	10,200
Holden House, 54-68 Oxford Street W1	75-100	O/R	F	8,400
Henry Wood House, 3-7 Langham Place W1	50-75	O/R/L	L	7,400
25 and 29 Berners Street W1	25-50	O	L	7,400
Middlesex House, 34-42 Cleveland Street W1	25-50	O	F	6,000
Network Building, 95-100 Tottenham Court Road W1	25-50	O/R	F	6,000
88-94 Tottenham Court Road W1	0-25	O/R	F	4,900
Charlotte Building, 17 Gresse Street W1	25-50	O	L	4,400
80-85 Tottenham Court Road W1	25-50	O/R	F	4,100
60 Whitfield Street W1	25-50	O	F	3,400
75 Wells Street W1	0-25	O/R	L	3,200
43 and 45-51 Whitfield Street W1	0-25	O	F	2,900
53-65 Whitfield Street W1	0-25	O	F	2,800
120-134 Tottenham Court Road W1 <sup>2</sup>	25-50	R/L	F	2,600
7-8, 9 and 10 Rathbone Place W1	0-25	O/R/Re	L	2,100
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	1,900
Suffolk House, 1-8 Whitfield Place W1	0-25	O	F	1,400
76-78 Charlotte Street W1	0-25	O	F	1,000
73 Charlotte Street W1	0-25	O	F	1,000
<b>Victoria (13%)</b>				
Horseferry House, Horseferry Road SW1	100+	O	F	15,100
Greencoat and Gordon House, Francis Street SW1	75-100	O	F	11,900
1 Page Street SW1	50-75	O	F	11,800 <sup>3</sup>
Premier House, 10 Greycoat Place SW1	25-50	O	F	5,800
Francis House, 11 Francis Street SW1	25-50	O	F	5,300
6-8 Greencoat Place SW1	0-25	O	F	3,100
<b>Baker Street/Marylebone (5%)</b>				
19-35 Baker Street W1	50-75	O/R	L	6,700
88-110 George Street W1	25-50	O/R/Re	L	4,200
30 Gloucester Place W1	0-25	O/Re	L	2,200
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	2,100
17-39 George Street W1	0-25	O/R/Re	L	2,000
<b>Soho/Covent Garden (4%)</b>				
Bush House, South West Wing, Strand WC2	0-25	O	F	10,000
Tower House, 10 Southampton Street WC2	25-50	O/R/Re	F	4,900
Davidson Building, 5 Southampton Street WC2	25-50	O/R	F	3,900
Jaeger House, 57 Broadwick Street W1	0-25	O/R	F	2,300
<b>Belgravia (3%)</b>				
1-5 Grosvenor Place SW1	75-100	O/R/Re	L	15,600 <sup>4</sup>
<b>Mayfair (2%)</b>				
25 Savile Row W1	50-75	O/R	F	3,900
<b>Paddington (1%)</b>				
55-65 North Wharf Road W2	25-50	O	L	7,200
Queens, 96-98 Bishop's Bridge Road W2	0-25	Re	F	2,000 <sup>3</sup>

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m <sup>2</sup>
<b>West End: Borders (10%)</b>				
<b>Islington/Camden (9%)</b>				
Angel Building, 407 St. John Street EC1	100+	O/R	F	24,300
4 & 10 Pentonville Road N1	0-25	O	F	5,100
Balmoral Grove Buildings, N7 and 1-9 Market Road N7	0-25	O/I	F	4,600
Suncourt House, 18-26 Essex Road N1	0-25	O/R	F	2,500
35 & 37 Kentish Town Road NW1	0-25	O	F	2,300
423-425 Caledonian Road N7	0-25	O	F	1,700
<b>Ladbroke Grove (1%)</b>				
Portobello Dock and Kensal House W10	0-25	O/R	F	4,800
136-142 Bramley Road W10	0-25	O	F	2,900
<b>City: Borders (21%)</b>				
<b>Clerkenwell (6%)</b>				
88 Rosebery Avenue EC1	25-50	O	F	9,600
Morelands Buildings, 5-27 Old Street EC1	25-50	O/R	L	8,400
Buckley Building, 49 Clerkenwell Green EC1	25-50	O	F	7,900 <sup>3</sup>
Tummill, 63 Clerkenwell Road EC1	0-25	O/R	F	6,500 <sup>3</sup>
5-8 Hardwick Street and 161 Rosebery Avenue EC1	0-25	O	F	3,300
151 Rosebery Avenue EC1	0-25	O	F	2,200
3-4 Hardwick Street EC1	0-25	O	F	1,100
<b>Old Street (5%)</b>				
1 Oliver's Yard EC2	75-100	O/R	F	17,300
White Collar Factory, City Road EC1: 70-74 City Road	25-50	O/R	F	11,500
Sophia House, 76 City Road				
Transworld House, 82-100 City Road				
36-37 Featherstone Street				
13-15 Mallow Street				
210 Old Street				
Monmouth House, 58-64 City Road EC1	0-25	O	F	3,900
186 City Road EC1	0-25	O	F	3,600
<b>Holborn (5%)</b>				
Johnson Building, 77 Hatton Garden EC1	75-100	O	F	14,600
40 Chancery Lane WC2	0-25	O	L	9,300 <sup>3</sup>
6-7 St. Cross Street EC1	0-25	O	F	3,100
<b>Shoreditch/Whitechapel (5%)</b>				
Tea Building, Shoreditch High Street E1	75-100	O/R/L	F	24,100
9 and 16 Prescott Street E1	0-25	O/Re	F	10,300
<b>Provincial (3%)</b>				
<b>Scotland (3%)</b>				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-75	R	F	29,100
Land, Bishopbriggs, Glasgow	25-50	-	F	5,500 acres

<sup>1</sup> Includes North of Oxford Street

<sup>2</sup> Includes a 324-room hotel

<sup>3</sup> Proposed scheme area

<sup>4</sup> Total floor area

( ) Percentages weighted by valuation

# LIST OF DEFINITIONS

## **Building Management System (BMS)**

A BMS is a computer-based control system installed in buildings that controls and monitors the buildings' mechanical and electrical equipment such as ventilation, lighting and power systems.

## **Building Research Establishment Environmental Assessment Method (BREEAM)**

BREEAM is an environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

## **Capital return**

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

## **Carbon Reduction Commitment Energy Efficiency Scheme (CRC)**

This is the UK Government's mandatory scheme for carbon emissions reporting and allowance purchasing.

## **Diluted figures**

Reported results adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bond.

## **Earnings/earnings per share (EPS)**

Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

## **Estimated rental value (ERV)**

This is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

## **European Public Real Estate Association (EPRA)**

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in August 2011 ([www.epra.com/media/EPRA\\_BPR\\_2011.pdf](http://www.epra.com/media/EPRA_BPR_2011.pdf)). This includes guidelines for the calculation of the following performance measures which the Group has adopted. In addition, in accordance with EPRA guidelines, Group specific adjustments have been made to adjusted profit and adjusted earnings per share to arrive at the underlying position (see below).

- Adjusted earnings per share  
Recurring earnings from core operational activities.
- Adjusted net asset value per share  
NAV adjusted to exclude certain items not expected to crystallise in a long-term investment property business model.
- Triple net asset value per share  
EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations.
- Net initial yield (NIY)  
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.
- "Topped-up" net initial yield  
This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

- Vacancy rate  
Estimated rental value (ERV) of immediately available space divided by ERV of the EPRA portfolio.
- Like-for-like rental income growth  
The growth in rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, surrender premiums and properties acquired or disposed of in either period.

## **Fair value movement**

An accounting adjustment to change the book value of an asset or liability to its market value.

## **Ground rent**

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

## **Headroom**

This is the amounts left to draw under the Group's loan facilities, i.e. the total loan facilities less amounts already drawn.

## **Interest cover ratio**

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

## **Interest rate swap**

A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating-rate debt to fixed rates.

## **Investment Property Databank Limited (IPD)**

IPD is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the All UK Property Index.

## **Key Performance Indicators (KPIs)**

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the Annual Report.

## **Lease incentives**

Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free or half rent period, stepped rents, or a cash contribution to fit-out or similar costs.

## **Loan-to-value ratio (LTV)**

The nominal value of borrowed funds divided by the fair value of investment property.

## **Mark-to-market**

The difference between the book value of an asset or liability and its market value.

## **NAV gearing**

Net debt divided by net assets.

## **Net assets per share or net asset value (NAV)**

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

## **Net debt**

Borrowings plus bank overdraft less cash and cash equivalents.

**Non-PID**

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

**Property income distribution (PID)**

Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

**Real Estate Investment Trust (REIT)**

The Government established REIT status in the UK in 2007 to remove tax inequalities between different real estate investors and aimed to improve overall investor access to real estate. REITs are companies which are exempt from corporate taxation on profits from property rental income and capital gains on the sale of investment properties.

REITs must distribute 90% of UK rental income in the form of property income dividends (PIDs). This makes the tax implications of investing in REITs equivalent to investing directly in property. REITs are also required to meet certain conditions including the proportion of total profits and assets accounted for by their property rental businesses. They remain liable to corporation tax on non-property investment businesses e.g. management fees and interest receivable.

The UK has had a tax exempt real estate regime since 1 January 2007 and Derwent London has been a REIT since 1 July 2007.

**Rent reviews**

Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents have increased) at the review date.

**Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)**

The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

**Reversion**

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

**Scrip dividend**

Derwent London offers its shareholders the opportunity to receive dividends in the form of shares instead of cash. This is known as a scrip dividend.

**Ska Rating**

The Ska Rating is an environmental impact assessment method designed specifically for non-domestic fit out projects. Performance is measured across a series of ratings, Bronze, Silver and Gold.

**Total property return**

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

**Total return**

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

**Total shareholder return**

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

**True equivalent yield**

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

**Underlying portfolio**

Properties that have been held for the whole of the year, i.e. excluding any acquisitions or disposals made during the year.

**Underlying profit/earnings per share**

EPRA profit or earnings per share adjusted for items that are excluded to show the underlying trend. For 2012, these adjustments are for rates credits and the foreign exchange movement.

**Underlying valuation increase**

The valuation increase on the underlying portfolio.

**Waste Resources Action Programme (WRAP)**

WRAP is a not-for-profit organisation that assists organisations to become more efficient in the use of natural resources.

**Yield shift**

A movement in the yield of a property asset, or like-for-like portfolio, over a given period. Yield compression is a commonly-used term for a reduction in yields.

# FIVE-YEAR SUMMARY

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Gross property income	<b>124.8</b>	125.5	119.4	123.8	119.0
Net property income	<b>117.0</b>	117.7	113.0	114.8	95.5
EPRA profit before tax	<b>52.5</b>	52.3	55.2	61.8	22.2
Profit/(loss) on disposal of properties and investments	<b>6.9</b>	36.1	0.9	(16.6)	1.2
Profit/(loss) before tax	<b>228.1</b>	233.0	352.8	(34.9)	(606.5)
Net assets	<b>1,918.0</b>	1,714.5	1,494.7	1,163.9	1,215.0
Property portfolio at fair value	<b>2,859.6</b>	2,646.5	2,426.1	1,918.4	2,108.0
Revaluation surplus/(deficit)	<b>175.3</b>	172.1	301.7	(81.1)	(602.1)
Net debt	<b>874.8</b>	864.5	887.8	720.8	865.4
Cash flow <sup>1</sup>	<b>1.9</b>	18.4	(171.6)	139.5	(83.7)
Net cash inflow from operating activities	<b>51.8</b>	47.2	46.5	66.4	38.3
Acquisitions	<b>99.8</b>	91.6	148.0	10.2	31.9
Capital expenditure on properties	<b>78.6</b>	42.6	49.5	94.6	72.9
Disposals	<b>161.0</b>	131.5	8.5	195.5	72.6
EPRA earnings per share (p)	<b>50.36</b>	51.59	52.89	57.14	21.74
Underlying earnings per share (p)	<b>49.77</b>	50.01	51.40	50.79	21.24
Dividend per share					
IFRS (p)	<b>31.86</b>	29.60	27.60	24.50	23.15
Distribution of year earnings (p)	<b>33.70</b>	31.35	29.00	27.00	24.50
Net asset value per share (p)	<b>1,824</b>	1,636	1,432	1,117	1,170
EPRA net asset value per share (p) – undiluted	<b>1,896</b>	1,712	1,484	1,168	1,226
EPRA net asset value per share (p) – diluted	<b>1,886</b>	1,701	1,474	1,161	1,222
EPRA triple net asset value per share (p) – diluted	<b>1,775</b>	1,607	1,425	1,126	1,206
EPRA total return (%)	<b>12.7</b>	17.4	29.3	(2.9)	(30.6)
Gearing					
NAV (%)	<b>45.6</b>	50.4	59.4	61.9	71.2
Loan-to-value ratio (%)	<b>30.0</b>	32.0	35.7	36.4	39.7
Interest cover ratio (%)	<b>351</b>	307	328	330	247

<sup>1</sup> Cashflow is the net cash from operating and investing activities less the dividends paid.

A list of definitions is provided on pages 150 and 151.

# FINANCIAL CALENDAR

Issue of first quarter 2013 interim management statement	10 May 2013
Annual General Meeting	17 May 2013
Payment of 2012 final dividend	14 June 2013
Announcement of 2013 interim results	August 2013
Issue of third quarter 2013 interim management statement	November 2013
Payment of 2013 interim dividend	November 2013
Announcement of 2013 results	March 2014

## ADVISORS

**Auditor**

BDO LLP

**Principal solicitors**

Slaughter and May

**Brokers**

UBS

JP Morgan Cazenove

**Principal clearing bank**

HSBC Bank plc

**Registrar**

Equiniti

