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[1] 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.

[1] 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	**79.9**	79.1	3.4	82.5
West End borders	11.5	0.2	**11.7**	9.0	0.2	9.2
City borders	27.3	0.1	**27.4**	27.4	0.1	27.5
Provincial	–	5.8	**5.8**	–	6.3	6.3
	116.8	8.0	**124.8**	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
Carrying value						
West End central	1,782.9	86.1	**1,869.0**	1,706.4	79.9	1,786.3
West End borders	244.5	9.9	**254.4**	210.5	9.8	220.3
City borders	590.2	4.5	**594.7**	480.2	2.7	482.9
Provincial	–	88.9	**88.9**	–	110.0	110.0
	2,617.6	189.4	**2,807.0**	2,397.1	202.4	2,599.5

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

	2012 £m	2011 £m
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**	–
Total finance income	**1.0**	1.1
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)
Total finance costs	**41.8**	44.3

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
	1.1	1.5

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
	10.3	8.7
National insurance contributions	**1.4**	1.1
	11.7	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)	**–**	–
	19.9	17.1	**19.0**	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)
Outstanding at 31 December 2012				**245,175**

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

[1] The expected tax rate for 2012 has been changed in line with the 2012 Finance Act.

17 EPRA performance measures

Summary table

	2012		2011	
		Pence per share p		Pence per share p
EPRA earnings	**£51.3m**	**50.36**	£52.3m	51.59
EPRA adjusted net asset value	**£1,933.9m**	**1,886**	£1,739.8m	1,701
EPRA triple net asset value	**£1,820.2m**	**1,775**	£1,644.3m	1,607
EPRA net initial yield	**4.3%**		4.4%	
EPRA "topped-up" net initial yield	**4.8%**		5.2%	
EPRA vacancy rate	**1.6%**		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	**101,859**	101,375	**102,014**	101,641
Dilutive effect of convertible bonds	**7,876**	4,587	**–**	–
Dilutive effect of share-based payments	**500**	667	**523**	656
For use in diluted earnings per share	**110,235**	106,629	**102,537**	102,297
Less dilutive effect of convertible bonds	**(7,876)**	(4,587)	**–**	–
For use in other diluted measures	**102,359**	102,042	**102,537**	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		
EPRA	**52.5**	**51.3**	**50.36**	**50.12**
Foreign exchange gain	(0.3)	(0.3)		
Rates credits	(0.3)	(0.3)		
Underlying	51.9	50.7	49.77	49.53

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2011		232.1		217.67
Interest effect of dilutive convertible 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
At 31 December 2012			
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)		
EPRA adjusted net asset value	**1,933.9**	**1,896**	**1,886**
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		
EPRA triple net asset value	1,820.2	1,784	1,775

	£m	Basic p	Diluted p
At 31 December 2011			
Net assets	1,714.5		
Minority interest	(51.8)		
Net assets attributable to equity shareholders	1,662.7	1,636	1,625
Adjustment for:			
Deferred tax on revaluation surplus	8.8		
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)		
EPRA adjusted net asset value	1,739.8	1,712	1,701
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		
EPRA triple net asset value	1,644.3	1,618	1,607

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[1]	**(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[1]	**(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[1]	**(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[1]	**(44.1)**	(19.4)
	130.9	141.0
EPRA vacancy rate	**1.6%**	1.3%

[1] 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
Group						
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
At 31 December 2012	**2,296.6**	**476.0**	**2,772.6**	**17.9**	**16.5**	**2,807.0**
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
Carrying value	**2,296.6**	**476.0**	**2,772.6**	**17.9**	**16.5**	**2,807.0**
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
Total property portfolio	**2,228.4**	2,132.0

19 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
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
At 31 December 2012	**17.9**	**1.5**	**0.9**	**20.3**
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)
At 31 December 2012	**17.9**	**1.5**	**0.9**	**20.3**
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
Company				
At 1 January 2012	–	0.9	0.7	1.6
Additions	–	–	0.4	0.4
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2012	**–**	**0.9**	**0.8**	**1.7**
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)
At 31 December 2012	**–**	**0.9**	**0.8**	**1.7**
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)
	–	–	–
At 31 December 2012	**912.1**	**–**	**912.1**
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
Group			
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
At 31 December 2012	**(4.1)**	**4.6**	**0.5**
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)
Company			
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)
At 31 December 2012	**–**	**4.3**	**4.3**
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	**–**	–
	60.9	55.4	**–**	–

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**	–
	50.8	45.0	**792.4**	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
	8.6	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	**0.6**	0.5
The provision for bad debts is split as follows:		
less than six months due	**0.6**	0.4
over twelve months due	**–**	0.1
	0.6	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)	**16.5**	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**	–
	80.5	70.9	**107.7**	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
Group					
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)
At 31 December 2012	**0.9**	**0.4**	**–**	**1.2**	**2.5**
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.4	–	0.4	0.8
	0.9	**0.4**	**–**	**1.2**	**2.5**
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
Company					
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)
At 31 December 2012	**–**	**0.4**	**–**	**1.0**	**1.4**
Due within one year	–	–	–	0.6	0.6
Due after one year	–	0.4	–	0.4	0.8
	–	**0.4**	**–**	**1.0**	**1.4**
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
	–	–	0.3	0.7	1.0

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
Current liabilities				
Unsecured bank loan	**–**	31.4	**–**	31.4
Loan notes	**–**	1.1	**–**	1.1
	–	32.5	**–**	32.5
Non-current liabilities				
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
Total liabilities	**933.5**	919.9	**701.1**	423.0

	Group 2012 £m	2011 £m	Company 2012 £m	2011 £m
Secured				
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
Unsecured				
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
Gross debt	**870.3**	860.6	**650.9**	392.3
Leasehold liabilities	**8.9**	7.4	**–**	–
Total debt	**879.2**	868.0	**650.9**	392.3
Cash and cash equivalents	**(4.4)**	(3.5)	**(1.2)**	–
Net debt	**874.8**	864.5	**649.7**	392.3

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
Group							
At 31 December 2012							
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
Gross loan commitments	**33.0**	**157.9**	**123.4**	**203.5**	**217.5**	**464.4**	**1,199.7**
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
Gross loan commitments	69.4	304.8	91.9	63.8	194.9	445.8	1,170.6

Reconciliation to total debt:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
Group						
At 31 December 2012						
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
	1,199.7	**(198.1)**	**(65.0)**	**(57.2)**	**(0.2)**	**879.2**
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
	1,170.6	(200.3)	(47.0)	(56.4)	1.1	868.0

	< 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
Company							
At 31 December 2012							
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
Gross loan commitments	**19.9**	**144.9**	**110.2**	**190.4**	**204.4**	**106.7**	**776.5**
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
Gross loan commitments	46.6	39.9	77.0	49.7	181.6	73.7	468.5

Reconciliation to total debt:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
Company						
At 31 December 2012						
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
	776.5	**(48.2)**	**(60.8)**	**–**	**(16.6)**	**650.9**
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
Group							
At 31 December 2012	**2.5**	**0.5**	**134.0**	**–**	**196.0**	**–**	**333.0**
At 31 December 2011	10.0	201.0	60.0	185.0	–	20.0	476.0
Company							
At 31 December 2012	**2.5**	**0.5**	**134.0**	**–**	**196.0**	**–**	**333.0**
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
At 31 December 2012						
Interest rate swaps	368.0	3.600	5.76	340.0	3.606	5.72
At 31 December 2011						
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
Group						
At 31 December 2012						
Bank overdrafts	–	–	–	–	2.50	–
Bank loans	64.2	368.0	–	432.2	4.77	3.14
6.5% secured bonds 2026[1]	–	–	191.4	191.4	6.50	13.22
2.75% unsecured convertible bonds 2016[1]	–	–	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[1]	–	–	192.2	192.2	6.50	14.22
2.75% unsecured convertible bonds 2016[1]	–	–	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
Company						
At 31 December 2012						
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

[1] 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
Group				
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)
Company				
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
Group					
Financial assets					
Cash and cash equivalents	–	4.4	–	4.4	4.4
Other assets – current[1]	–	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[2]	–	–	(44.2)	(44.2)	(44.2)
	(54.3)	–	(923.4)	(977.7)	(1,029.1)
At 31 December 2012	**(54.3)**	**34.5**	**(923.4)**	**(943.2)**	**(994.6)**
Financial assets					
Cash and cash equivalents	–	3.5	–	3.5	3.5
Other assets – current[1]	–	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[2]	–	–	(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)
Company					
Financial assets					
Cash and cash equivalents	–	1.2	–	1.2	1.2
Other assets – current[1]	–	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[2]	–	(89.9)	(17.7)	(107.6)	(107.6)
	(50.2)	(89.9)	(668.6)	(808.7)	(837.5)
At 31 December 2012	**(50.2)**	**702.8**	**(668.6)**	**(16.0)**	**(44.8)**
Financial assets					
Other assets – current[1]	–	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[2]	–	(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)

[1] 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.

[2] 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[1]	59,325
At 31 December 2012	**102,014,231**

[1] 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. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	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
	934.0	936.6	**681.9**	600.5

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 PID p	Dividend per share Non-PID p	Dividend per share Total p	**2012 £m**	2011 £m
Current year						
2012 final dividend	14 June 2013	18.75	5.00	23.75	**–**	–
2012 interim dividend	1 November 2012	9.95	–	9.95	**10.2**	–
Distribution of current year profit		28.70	5.00	33.70	**10.2**	–
Prior year						
2011 final dividend	15 June 2012	18.10	3.80	21.90	**22.3**	–
2011 interim dividend	4 November 2011	9.45	–	9.45	**–**	9.6
Distribution of prior year profit		27.55	3.80	31.35	**22.3**	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					**32.5**	30.1
2012 interim dividend withholding tax	14 January 2013				**(1.5)**	–
2012 interim scrip dividend	1 November 2012				**(0.7)**	–
2011 final scrip dividend	15 June 2012				**(1.3)**	–
2011 interim dividend withholding tax	27 January 2012				**1.4**	(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					**30.4**	25.4

33 Cash and cash equivalents

	Group 2012 £m	Group 2011 £m	**Company 2012 £m**	Company 2011 £m
Short-term deposits	**4.4**	3.5	**1.2**	–

34 Total return

	2012 %	2011 %
Total return	**12.7**	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	**124.1**	117.8
later than one year and not later than five years	**438.9**	333.7
later than five years	**809.4**	839.8
	1,372.4	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
	66.1	63.8
Future contingent rent payable on finance leases	**(17.6)**	(23.3)
Future finance charges on finance leases	**(39.6)**	(33.1)
Present value of finance lease liabilities	**8.9**	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
	8.9	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	**0.9**	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[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	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[1]	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited[1]	100%	Holding company

[1] 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
Related party						
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[1]	**(6.5)**	(2.8)	**–**	–	**(164.9)**	(164.8)
Derwent Valley Railway Company[2]	**–**	–	**–**	–	**(0.2)**	(0.2)
London Merchant Securities Limited[3]	**(3.1)**	(4.4)	**–**	–	**(12.4)**	(69.8)
	15.2	12.0	**100.0**	–	**536.4**	232.2

[1] The payable balance at 31 December 2012 includes the long-term intercompany loan of £165.0m (2011: £162.1) included in note 27.
[2] Dormant company.
[3] 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)

(ii) 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.