

# Notes to the financial statements

for the year ended 31st December 2009

## 1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee interpretations (IFRICs) issued by the International Accounting Standards Board as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

The principal accounting policies are described in note 2. The accounting policies are consistent with those applied in the year ended 31st December 2008 as amended to reflect the adoption of the following new standards, amendments and interpretations which are mandatory for the year ended 31st December 2009.

IFRS 2	Share-based Payment – amendment (effective from 1st January 2009)
IFRS 7	Financial Instruments: Disclosures – amendment (effective from 1st July 2009)
IFRS 8	Operating Segments (effective from 1st January 2009)
IAS 1	Presentation of Financial Statements – amendment (effective from 1st January 2009)
IAS 23	Borrowing Costs – amendment (effective from 1st January 2009)
Improvements to IFRS issued in 2008	

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 effective at the year end. All 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 3	Business Combinations – revised (effective from 1st July 2009)
IAS 27	Consolidated and Separate Financial Statements – amendment (effective from 1st July 2009)
IAS 32	Financial Instruments – amendment (effective from 1st July 2009)
IAS 39	Financial Instruments: Recognition and Measurement – amendment (effective from 1st July 2009)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1st July 2009)
IFRIC 18	Transfer of Assets from Customers (effective from 1st July 2009)

UK companies can only adopt IFRSs and IFRICs after they have been endorsed by the European Union. The following standards have been issued but not yet endorsed by the European Union at the date these accounts were signed:

IFRS 2	Share-based Payment – amendment
IFRS 9	Financial Instruments
IAS 24	Related Party Disclosures – revised
IFRIC 14/ IAS 19	Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendments
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRS issued in 2009	

## Critical accounting estimates and judgements

The preparation of financial statements in conformity 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. Additional detail is provided in note 3.

## 2 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.

## 2 Significant accounting policies (continued)

### 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. This includes the effect of lease incentives to tenants, which are normally in the form of rent free 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.

### Development income

Development income arises from the group's project management of the construction and letting of a property on behalf of a third party. Where the group participates in the uplift in value of the property, revenue is recognised in accordance with IAS 18, Revenue, and is based on the directors' assessment of the stage of completion of the project, the future costs and the expected value of the completed building following discussion with external advisors and valuers.

### 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.

### 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.

- (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 7th 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.

- (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 statement of recognised income and expense.

### 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.

## 2 Significant accounting policies (continued)

### 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. Borrowing costs that are directly attributable to such expenditure are expensed in the year in which they arise.
- (iii) Disposal – The disposal of investment properties is accounted for 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 re-measured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

### Property, plant and equipment

Property, plant and equipment, is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less 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 their net asset value. 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.

### Trading properties

Trading properties include those properties which were acquired exclusively with a view to resale or development and resale and are held at the lower of cost or transfer value and net realisable value.

### 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) 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 bond holders is expensed in the year to which it relates.
- (iii) 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.
- (iv) 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.

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

## 2 Significant accounting policies (continued)

### 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.

## 3 Significant judgments, key assumptions and estimates

The group's significant accounting policies are stated in note 2 above. Not all of these significant 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.

### Trading properties

Trading properties are carried at the lower of cost and net realisable value. The latter is assessed by the group having regards to suitable external advice and knowledge of recent comparable transactions.

### 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 status of any disputed amounts.

### Exceptional items

Exceptional items are defined as those items which are sufficiently material by either their size or nature as to require separate disclosure. Deciding which items meet this definition requires the group to exercise its judgement.

### Estimated compulsory purchase proceeds

During 2009, compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to three of the group's investment properties. The proceeds recognised in respect of these properties are the directors' best estimates of the amounts to be received.

### Investment property valuation

The group uses the valuation performed by its independent valuers as the fair value of its investment properties. 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 rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon an estimated annual rent. The estimate is derived from knowledge of market rents for comparable properties.

### Compliance with the real estate investment trust taxation regime

On 1st July 2007 the group converted to a REIT. In order to achieve and retain REIT status, several entrance tests had to be met and 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

The group has adopted IFRS 8, Operating Segments, with effect from 1st January 2009. IFRS 8 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 recurring earnings per share, adjusted net asset value and recurring profit. Reconciliations of each of these figures to their statutory equivalents are detailed in notes 16, 34 and 35, respectively. Additionally, information is provided to the executive board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The group's investment property portfolio comprises 91% offices\* by value. The directors consider that these properties have similar types of tenants, they demonstrate similar long-term financial performance and have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 9% represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the directors are of the view that it is appropriate to disclose two reportable segments, 'offices' and 'other', by reference to gross property income and investment property value.

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

#### Investment property (see note 17)

	Carrying value		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
Offices	<b>1,709.3</b>	1,897.0	<b>1,736.4</b>	1,917.6
Other	<b>179.3</b>	188.6	<b>182.0</b>	190.4
	<b>1,888.6</b>	2,085.6	<b>1,918.4</b>	2,108.0

#### Gross property income

	2009 £m	2008 £m
Offices	<b>114.3</b>	109.2
Other	<b>9.5</b>	9.8
	<b>123.8</b>	119.0

All of the group's investment properties are based in the UK. The group also owns a joint venture in Prague which represents 0.2% of the group's assets (see note 42). 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, the following analysis is included to provide users with additional information regarding the geographical areas contained in the business review.

#### Investment property

	Carrying value		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
West End central	<b>1,284.8</b>	1,421.4	<b>1,299.1</b>	1,429.6
West End borders	<b>121.4</b>	117.5	<b>121.7</b>	117.8
City borders	<b>392.5</b>	413.6	<b>405.5</b>	425.5
Provincial	<b>89.9</b>	133.1	<b>92.1</b>	135.1
	<b>1,888.6</b>	2,085.6	<b>1,918.4</b>	2,108.0

#### Gross property income

	2009 £m	2008 £m
West End central	<b>78.4</b>	74.0
West End borders	<b>7.9</b>	8.1
City borders	<b>29.2</b>	27.6
Provincial	<b>8.3</b>	9.3
	<b>123.8</b>	119.0

## 5 Income

Gross property income includes surrender premiums received from tenants during 2009 of £0.1m (2008: £0.2m). The balance of £123.7m (2008: £118.8m) is derived solely from rental income from the group's properties. Of these amounts, £4.2m (2008: £4.2m) was derived from a lease to BT of the Angel Building, EC1, where in March 2007, the group entered into an arrangement with BT to restructure the lease arrangements such that the group could obtain possession of the building whilst maintaining rental income from BT until March 2010 (albeit that, if the group disposed of this property, the right to that rental income would pass to the purchaser). 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).

In 2008, development income of £0.5m was received which was the proportion of the total profit share earned by the group from the project management of the construction and letting of a property on behalf of a third party. No development income was received during 2009.

Other income of £1.5m (2008: £0.9m) 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.

## 6 Property outgoings

	2009 £m	2008 £m
Ground rents	0.7	0.7
Reverse surrender premium	–	8.3
Write-down of trading property	–	2.0
Other property costs	9.8	13.9
	<b>10.5</b>	<b>24.9</b>

Property outgoings include £0.1m (2008: £0.1m) of costs relating to properties which produced no property income during the year.

## 7 (Loss)/profit on disposal of investment property

	2009 £m	2008 £m
Disposal proceeds	201.8	72.6
Carrying value	(216.0)	(71.4)
Adjustment for rents recognised in advance	(2.4)	–
	<b>(16.6)</b>	<b>1.2</b>

During 2009, compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to three of the group's investment properties. The final value to be received in respect of these properties has yet to be determined and, therefore, the disposal proceeds included above for these properties are the directors' best estimates of the amounts to be received.

## 8 Finance income and costs

	2009 £m	2008 £m
Finance income		
Interest on development funding	0.9	0.1
Return on pension plan assets	0.6	0.8
Bank interest received	0.1	–
Other	0.4	0.8
	<b>2.0</b>	<b>1.7</b>
Foreign exchange gain	3.6	–
Total finance income	<b>5.6</b>	<b>1.7</b>
Finance costs		
Bank loans and overdraft wholly repayable within five years	23.7	35.3
Bank loans not wholly repayable within five years	3.4	0.8
Loan notes	0.1	0.9
Secured bonds	10.7	10.8
Finance leases	0.6	0.6
Pension interest costs	0.5	0.5
	<b>39.0</b>	<b>48.9</b>
Foreign exchange loss	–	8.3
Total finance costs	<b>39.0</b>	<b>57.2</b>

The foreign exchange gain of £3.6m (2008: £8.3m loss) resulted from the translation of an inter-company loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement is minimal as there is an offsetting entry in equity (see group statement of comprehensive income).

## 9 Share of results of joint ventures

	2009 £m	2008 £m
Revaluation deficit	<b>(1.3)</b>	(1.3)
Other profit from operations after tax	<b>0.4</b>	0.5
	<b>(0.9)</b>	(0.8)

See notes 19 and 42 for further details of the group's joint ventures.

## 10 Loss before tax

	2009 £m	2008 £m
This is arrived at after charging:		
Depreciation and amortisation	<b>0.2</b>	0.2
Contingent rent payable under property finance leases	<b>0.7</b>	0.7
Auditors' remuneration		
Audit – group	<b>0.2</b>	0.2
Audit – group (prior year)	–	0.2
Audit – subsidiaries	<b>0.1</b>	0.1
Tax compliance services	–	0.2
Other services	<b>0.1</b>	–

## 11 Directors' emoluments

	2009 £m	2008 £m
Remuneration for management services	<b>4.0</b>	2.6
Adjustment in respect of prior years' incentive schemes	<b>0.3</b>	0.4
Non-executive directors' remuneration	<b>0.5</b>	0.5
Gain on exercise of share options	<b>1.0</b>	1.0
Pension contributions	<b>0.4</b>	0.5
	<b>6.2</b>	5.0
National insurance contributions	<b>1.1</b>	0.3
	<b>7.3</b>	5.3

Included within the figures shown in note 12 below are amounts recognised in the group income statement, in accordance with IFRS 2, Share-based Payment, relating to the directors. These are an expense of £1.9m (2008: £1.4m) and a charge of £1.6m (2008: £1.6m credit) 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 on directors' remuneration on pages 55 to 62. The only key management personnel are the directors.

## 12 Employees

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Staff costs, including those of directors:				
Wages and salaries	<b>8.9</b>	7.4	<b>8.9</b>	7.1
Social security costs	<b>1.3</b>	1.0	<b>1.3</b>	1.0
Pension costs	<b>1.0</b>	0.9	<b>1.0</b>	0.7
Share-based payments expense relating to equity-settled schemes	<b>2.0</b>	1.5	<b>2.0</b>	1.5
Share-based payments charge/(credit) relating to cash-settled schemes	<b>1.6</b>	(1.6)	–	–
	<b>14.8</b>	9.2	<b>13.2</b>	10.3

The average number of employees in the group during the year, excluding directors, was 68 (2008: 60). The average number of employees in the company during the year, excluding directors, was 64 (2008: 56). All were employed in administrative roles.

### 13 Share-based payments

Details of the options held by directors and employees under the group's share option schemes are given in the report on directors' remuneration on pages 55 to 62.

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

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled option scheme operated by the group. No options were granted during 2008. This is a new scheme separate to the performance share plan and other option schemes as disclosed in the directors remuneration report on pages 55 to 62. The directors are not entitled to any awards under this scheme.

	2009	2008
Option pricing model used	<b>Binomial lattice</b>	–
Share price at date of grant	<b>£6.10</b>	–
Exercise price	<b>£6.10</b>	–
Number granted	<b>69,500</b>	–
Number lapsed in the year	<b>5,000</b>	–
Contractual life	<b>10 years</b>	–
Risk free interest rate	<b>2.7%</b>	–
Volatility	<b>37%</b>	–
Dividend yield	<b>4.0%</b>	–

For the 2009 grant, 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 three years.

There were 64,500 options exercisable at 31st December 2009 (2008: nil).

#### 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 31st December 2009 of £13.20 (2008: £7.25) and a dividend yield of 1.9% (2008: 3%) were used together with risk-free interest rates of between 0.5% and 2.3% (2008: between 1.7% and 2.6%) depending on the term of the options.

Due to the small number of individuals who have been granted these options, an assumption of zero employee turnover has been made. Additionally, volatilities of 58% pa, 49% pa and 40% pa (2008: 48% pa, 38% pa and 31% pa) have been used for options with lives of one year, three years and five years (and over), 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 the 31st December 2009, 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, but tend to exercise their options later at the financially optimal date.

### 14 Pension costs

The group and company operate a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc and is closed to new members. All new employees will 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 £0.9m (2008: £0.7m).

#### 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 Ignis Asset Management and F&C Investments 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 7.1% pa (2008: 6.75% pa) and that salaries will be increased at 5.0% pa (2008: 4.4% pa). The market value of assets of the scheme at 31st December 2009 was £10.7m (2008: £8.7m) and the actuarial value of those assets on an ongoing basis represented 108% (2008: 113%) of the benefit of £9.9m (2008: £7.7m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.8m (2008: £1.0m).

## 14 Pension costs (continued)

### Defined benefit obligations

	2009 £m	2008 £m
Present value of funded obligations	(9.9)	(7.7)
Fair value of plan assets	10.7	8.7
Recognised surplus for defined benefit obligations	0.8	1.0

### Movements in present value of the defined benefit obligations recognised in the balance sheet

	2009 £m	2008 £m
Net surplus for defined benefit obligation at 1st January	1.0	2.8
Net return	–	0.3
Actuarial losses recognised in reserves	(0.2)	(2.1)
Net surplus for defined benefit obligations at 31st December	0.8	1.0

### Expense recognised in the income statement

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

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

	2009 £m	2008 £m
Administrative expenses	(0.1)	(0.1)
Other finance costs	(0.5)	(0.5)
Finance income	0.6	0.8
	–	0.2

### Change in the fair value of plan assets

	2009 £m	2008 £m
At 1st January	8.7	11.6
Expected return	0.6	0.8
Total contributions	0.1	0.1
Benefits paid	–	(0.4)
Actuarial gains/(losses)	1.3	(3.4)
At 31st December	10.7	8.7

The actual return on the plan assets for the year was £1.9m (2008: £(2.6)m). 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.

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

	2009 £m	2008 £m
At 1st January	7.7	8.8
Service cost	0.1	0.1
Interest cost	0.5	0.5
Benefits paid	–	(0.4)
Actuarial gains	1.6	(1.3)
At 31st December	9.9	7.7

## 14 Pension costs (continued)

### Experience gains and losses

	2009 £m	2008 £m
Experience gains/(losses) on plan assets	1.3	(3.4)
Experience gains on plan liabilities	(1.6)	(1.3)

### Analysis of plan assets

	2009 £m	2008 £m
Equities	9.3	6.6
Bonds	1.0	1.3
Property	–	0.1
Cash	0.4	0.7
Total	10.7	8.7

### Principal actuarial assumptions

	2009 % pa	2008 % pa
Discount rate at 31st December	5.7	6.3
Expected return on plan assets at 31st December	7.1	6.8
Future salary increases	5.0	4.4
Inflation	3.5	2.9
Future pension increases	5.0	5.0

## 15 Tax credit

	2009 £m	2008 £m
Corporation tax credit		
UK corporation tax and income tax on profit for the year	(2.6)	(1.4)
Utilisation of losses from prior years	11.1	7.1
Other	(0.4)	–
	8.1	5.7
Deferred tax credit		
Origination and reversal of temporary differences	1.7	3.6
Adjustment for changes in estimates	(0.4)	–
	1.3	3.6
	9.4	9.3

Within the utilisation of losses from prior years of £11.1m (2008: £7.1m) is £11.9m of losses (2008: £3.4m) which were not recognised in prior years due to the uncertainty of their availability.

The effective rate of tax for 2009 is lower (2008: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £m	2008 £m
Loss before tax	(34.9)	(606.5)
Expected tax credit based on the standard rate of corporation tax in the UK of 28.0% (2008: 28.5%)	9.8	172.9
Difference between tax and accounting profit on disposals	(8.5)	(0.6)
REIT exempt income	8.2	4.0
Expenses and fair value adjustments not (allowable)/deductible for tax purposes	4.0	(5.3)
Revaluation deficit attributable to REIT properties	(19.7)	(171.6)
Capital allowances	4.6	3.9
Other differences	(0.1)	(1.1)
Tax charge/(credit) on current year's loss	(1.7)	2.2
Adjustments in respect of prior years' tax	11.1	7.1
	9.4	9.3

## 16 (Loss)/earnings per share

	Loss for the year £m	Weighted average number of shares '000	Loss per share p
Year ended 31st December 2009	(26.8)	100,802	<b>(26.59)</b>
Adjustment for dilutive share-based payments	–	–	–
Diluted	(26.8)	100,802	<b>(26.59)</b>
Year ended 31st December 2008	(586.4)	100,758	(581.99)
Adjustment for dilutive share-based payments	–	–	–
Diluted	(586.4)	100,758	(581.99)

The diluted loss per share for the year to 31st December 2009 has been restricted to a loss of 26.59p per share (2008: 581.99p loss), as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share. At 31st December 2009, there were 597,244 share options and contingently issuable shares (2008: 435,000) which could potentially dilute earnings in the future.

	(Loss)/profit for the year £m	Weighted average number of shares '000	(Loss)/earnings per share p
Year ended 31st December 2009	(26.8)	100,802	<b>(26.59)</b>
Adjustment for:			
Disposal of properties	16.6	–	<b>16.47</b>
Group revaluation deficit	80.3	–	<b>79.66</b>
Joint venture revaluation deficit	1.3	–	<b>1.29</b>
Fair value movement in derivative financial instruments	(3.9)	–	<b>(3.87)</b>
Prior year tax relating to capital items	(11.1)	–	<b>(11.01)</b>
Minority interests in respect of the above	(0.4)	–	<b>(0.40)</b>
Recurring	56.0	100,802	<b>55.55</b>
Adjustment for dilutive share-based payments	–	597	<b>(0.32)</b>
Diluted recurring and diluted EPRA	56.0	101,399	<b>55.23</b>
Year ended 31st December 2008	(586.4)	100,758	(581.99)
Adjustment for:			
Disposal of properties	(1.2)	–	(1.19)
Group revaluation deficit	597.9	–	593.40
Joint venture revaluation deficit	1.3	–	1.29
Fair value movement in derivative financial instruments	28.1	–	27.89
Development income	(0.5)	–	(0.50)
Prior year tax relating to capital items	(5.0)	–	(4.96)
Minority interests in respect of the above	(11.2)	–	(11.11)
Recurring	23.0	100,758	22.83
Adjustment for dilutive share-based payments	–	435	(0.10)
Diluted recurring	23.0	101,193	22.73
Adjustment for development income	0.5	–	0.49
Diluted EPRA	23.5	101,193	23.22

Recurring earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, the profit or loss after tax arising from the disposal of properties and investments, development income and any exceptional costs and income in order to show the underlying trend.

## 17 Investment property

	Freehold £m	Leasehold £m	Total £m
<b>Group</b>			
Carrying value			
At 1st January 2009	1,722.5	363.1	2,085.6
Acquisitions	–	9.8	9.8
Capital expenditure	80.2	11.3	91.5
Additions	80.2	21.1	101.3
Disposals	(207.9)	(8.1)	(216.0)
Revaluation	(57.0)	(24.1)	(81.1)
Movement in grossing up of headlease liabilities	–	(1.2)	(1.2)
<b>At 31st December 2009</b>	<b>1,537.8</b>	<b>350.8</b>	<b>1,888.6</b>
At 1st January 2008	2,224.1	430.5	2,654.6
Transfer	(15.0)	15.0	–
Acquisitions	27.8	4.1	31.9
Capital expenditure	61.1	11.9	73.0
Additions	88.9	16.0	104.9
Disposals	(59.8)	(11.6)	(71.4)
Revaluation	(515.7)	(86.4)	(602.1)
Movement in grossing up of headlease liabilities	–	(0.4)	(0.4)
At 31st December 2008	1,722.5	363.1	2,085.6
Disclosed in:			
Investment property	1,705.0	363.1	2,068.1
Non-current assets held for sale	17.5	–	17.5
	1,722.5	363.1	2,085.6
Adjustments from fair value to carrying value			
At 31st December 2009			
Fair value	1,573.3	345.1	1,918.4
Adjustment for rents recognised in advance	(35.5)	(1.7)	(37.2)
Adjustment for grossing up of headlease liabilities	–	7.4	7.4
Carrying value	<b>1,537.8</b>	<b>350.8</b>	<b>1,888.6</b>
At 31st December 2008			
Fair value	1,752.1	355.9	2,108.0
Adjustment for rents recognised in advance	(29.6)	(1.4)	(31.0)
Adjustment for grossing up of headlease liabilities	–	8.6	8.6
Carrying value	1,722.5	363.1	2,085.6

The investment properties were revalued at 31st December 2009 by external valuers, on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued properties to a value of £1,889.9m (2008: £2,079.6m); other valuers, £28.5m (2008: £28.4m).

At 31st December 2009, the historical cost of investment property owned by the group was £1,894.8m (2008: £2,054.5m).

## 18 Property, plant and equipment

	2009 £m	2008 £m
<b>Group</b>		
At 1st January	1.2	1.4
Additions	0.4	0.2
Disposals	–	(0.2)
Depreciation	(0.2)	(0.2)
At 31st December	1.4	1.2
Net book value		
Cost or valuation	3.4	3.0
Accumulated depreciation	(2.0)	(1.8)
	1.4	1.2

	2009 £m	2008 £m
<b>Company</b>		
At 1st January	0.4	0.4
Additions	0.4	0.1
Depreciation	(0.2)	(0.1)
At 31st December	0.6	0.4
Net book value		
Cost or valuation	1.7	1.3
Accumulated depreciation	(1.1)	(0.9)
	0.6	0.4

## 19 Investments

### Group

The group has 50% interests in the joint ventures Primister Limited, Dorrington Derwent Holdings Limited and Miller (Swinton) Limited and a 25% interest and 50% voting rights in the joint venture Euro Mall Sterboholy a.s..

	2009 £m	2008 £m
At 1st January	7.6	5.1
Additions	0.2	0.3
Transfer from non-current assets held for sale	–	3.4
Distributions received	(0.5)	(0.4)
Share of results of joint ventures (see note 9)	(0.9)	(0.8)
At 31st December	6.4	7.6

The following amounts have been recognised in the group's balance sheet and income statement relating to these joint ventures.

	2009 £m	2008 £m
Non-current assets	17.2	18.6
Current assets	1.7	2.2
Current liabilities	(4.4)	(5.2)
Non-current liabilities	(8.1)	(8.0)
Net assets	6.4	7.6
Income	2.2	1.1
Expenses	(3.1)	(1.9)
Loss for the year	(0.9)	(0.8)

## 19 Investments (continued)

Company	Subsidiaries £m	Joint ventures £m	Total £m
Shares in subsidiaries:			
At 1st January 2008	956.9	–	956.9
Impairment	(336.3)	–	(336.3)
At 31st December 2008	620.6	–	620.6
Additions	4.1	–	4.1
Disposals	(6.2)	–	(6.2)
Impairment	(49.0)	–	(49.0)
At 31st December 2009	569.5	–	569.5
Loans:			
At 1st January 2008 and 31st December 2008	–	0.9	0.9
Repayment	–	(0.5)	(0.5)
	–	0.4	0.4
<b>At 31st December 2009</b>	<b>569.5</b>	<b>0.4</b>	<b>569.9</b>
At 31st December 2008	620.6	0.9	621.5

At 31st December 2009 and 31st December 2008, the carrying value of the investment in London Merchant Securities Ltd was reviewed in accordance with IAS 36, Impairment of Assets. A review for impairment of the investment in subsidiaries was carried out in accordance with IAS 36 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 net asset value and recognise any impairment in the 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 fall in the value of the investment properties, there has been a related reduction in the net asset value of the subsidiaries which has been reflected as an impairment in the company income statement of £49.0m (2008: £336.3m). Of this amount, £45.0m relates to the investment in London Merchant Securities Ltd. This amount is transferred from retained earnings to the merger reserve within other reserves. The remaining £4.0m relates to two of the company's other investments and remains within retained earnings.

The company liquidated its investment in Bramley Road Ltd during the year. The investment was being carried at £6.2m and made a loss on liquidation of £3.5m.

During the year, the company became the direct beneficial owner of the shares in LMS (Kingston) Ltd, an indirect subsidiary company, for nil consideration. These shares were sold to a third party realising net proceeds of £1.0m and a profit on disposal of £0.6m.

The company increased its investment in two of its subsidiaries during the year: Derwent Valley West End Ltd by £2.0m and Derwent Valley Property Trading Ltd by £2.1m, as these entities were in a net liability position. In accordance with IAS 36, these investments were written down to their net asset value.

## 20 Other receivables (non-current)

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Accrued income	34.2	29.0	–	–
Other	4.7	–	–	–
	<b>38.9</b>	29.0	–	–

## 21 Trading properties

During the year ended 31st December 2009, £6.5m (2008: £nil) of trading properties were disposed of by the group at book value. At 31st December 2008, trading properties were written down by £2.0m to their net realisable value. There was no such writedown at 31st December 2009.

## 22 Trade and other receivables

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Trade receivables	11.9	14.9	–	–
Amounts owed by subsidiaries	–	–	631.1	696.9
Other receivables	10.5	12.2	0.2	0.1
Prepayments	13.2	7.1	2.1	1.0
Sales and social security taxes	–	–	0.6	–
Accrued income	11.0	4.5	0.3	–
	<b>46.6</b>	<b>38.7</b>	<b>634.3</b>	<b>698.0</b>

	2009 £m	2008 £m
Group trade receivables are split as follows:		
less than three months due	10.0	13.7
between three and six months due	1.7	0.2
between six and twelve months due	0.2	1.0
	<b>11.9</b>	<b>14.9</b>

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

	2009 £m	2008 £m
At 1st January	1.3	1.2
Additions	0.7	0.8
Released	(0.1)	(0.7)
At 31st December	<b>1.9</b>	<b>1.3</b>

The provision for bad debts is split as follows:

	2009 £m	2008 £m
less than six months due	0.4	0.3
between six and twelve months due	0.2	0.1
over twelve months due	1.3	0.9
	<b>1.9</b>	<b>1.3</b>

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

## 23 Non-current assets held for sale

	2009 £m	2008 £m
Investment properties (note 17)	–	17.5

Compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to two of the group's freehold investment properties on 19th December 2008. On 16th January 2009, title for these properties passed to the acquiring authority, The Secretary of State for Transport. Therefore, at 31st December 2008, these properties were recognised as non-current assets held for sale in accordance with IFRS 5, Non-current Assets Held for Sale.

## 24 Trade and other payables

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Trade payables	1.7	2.3	1.2	0.3
Amounts owed to subsidiaries	–	–	259.5	154.3
Other payables	7.8	0.2	0.2	–
Sales and social security taxes	1.9	1.0	–	0.8
Accruals	12.8	10.6	6.9	6.3
Deferred income	34.8	33.5	–	–
	<b>59.0</b>	<b>47.6</b>	<b>267.8</b>	<b>161.7</b>

## 25 Provisions

	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	<b>2009 Total £m</b>	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2008 Total £m
<b>Group</b>								
At 1st January	0.5	0.6	0.3	<b>1.4</b>	2.1	0.7	0.5	3.3
Provided/(released) in the income statement	1.6	–	0.3	<b>1.9</b>	(1.6)	–	–	(1.6)
Utilised in year	–	(0.1)	(0.1)	<b>(0.2)</b>	–	(0.1)	(0.2)	(0.3)
At 31st December	2.1	0.5	0.5	<b>3.1</b>	0.5	0.6	0.3	1.4
Due within one year	–	0.1	0.1	<b>0.2</b>	–	0.1	0.1	0.2
Due after one year	2.1	0.4	0.4	<b>2.9</b>	0.5	0.5	0.2	1.2
	2.1	0.5	0.5	<b>3.1</b>	0.5	0.6	0.3	1.4
<b>Company</b>								
At 1st January	–	0.6	0.3	<b>0.9</b>	–	0.7	0.5	1.2
Provided in the income statement	–	–	0.3	<b>0.3</b>	–	–	–	–
Utilised in year	–	(0.1)	(0.1)	<b>(0.2)</b>	–	(0.1)	(0.2)	(0.3)
At 31st December	–	0.5	0.5	<b>1.0</b>	–	0.6	0.3	0.9
Due within one year	–	0.1	0.1	<b>0.2</b>	–	0.1	0.1	0.2
Due after one year	–	0.4	0.4	<b>0.8</b>	–	0.5	0.2	0.7
	–	0.5	0.5	<b>1.0</b>	–	0.6	0.3	0.9

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.

The onerous contract relates to the excess of rent payable over rent receivable on a lease at the group's previous head office which expires in 2014 and reflects the discounted present value of future net payments under that lease.

A provision is made for the potential liability for cash-settled share options based on the valuation carried out at each balance sheet date (see note 13).

## 26 Borrowings and derivative financial instruments

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
<b>Current liabilities</b>				
Bank loans	–	103.0	–	103.0
Overdraft	5.9	3.6	5.4	1.3
	<b>5.9</b>	<b>106.6</b>	<b>5.4</b>	<b>104.3</b>
<b>Non-current liabilities</b>				
6.5% Secured Bonds 2026	193.6	194.3	–	–
Loan notes	1.4	3.2	1.4	3.2
Bank loans	503.0	534.0	260.0	297.0
Unsecured loans	31.1	29.2	31.1	29.2
Leasehold liabilities	7.4	8.6	–	–
	<b>736.5</b>	<b>769.3</b>	<b>292.5</b>	<b>329.4</b>
Derivative financial instruments – expiring in less than one year	1.6	–	1.6	–
Derivative financial instruments – expiring in greater than one year	21.4	26.9	7.8	12.1
	<b>23.0</b>	<b>26.9</b>	<b>9.4</b>	<b>12.1</b>
<b>Total liabilities</b>	<b>765.4</b>	<b>902.8</b>	<b>307.3</b>	<b>445.8</b>

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
<b>Secured</b>				
Bank loans	503.0	637.0	260.0	400.0
6.5% Secured Bonds 2026	193.6	194.3	–	–
	<b>696.6</b>	<b>831.3</b>	<b>260.0</b>	<b>400.0</b>
<b>Unsecured</b>				
Loan notes	1.4	3.2	1.4	3.2
Bank loans	31.1	29.2	31.1	29.2
Overdrafts	5.9	3.6	5.4	1.3
	<b>38.4</b>	<b>36.0</b>	<b>37.9</b>	<b>33.7</b>
<b>Gross debt</b>	<b>735.0</b>	<b>867.3</b>	<b>297.9</b>	<b>433.7</b>
Leasehold liabilities	7.4	8.6	–	–
<b>Total debt</b>	<b>742.4</b>	<b>875.9</b>	<b>297.9</b>	<b>433.7</b>
Cash and cash equivalents	(19.0)	(10.5)	–	–
<b>Net debt</b>	<b>723.4</b>	<b>865.4</b>	<b>297.9</b>	<b>433.7</b>

At 31st December 2009, £1,225.2m (2008: £1,338.0m) of the group's properties are subject to a fixed charge to secure the group's bank loans. In addition, the bonds are secured by a floating charge over certain of the group's companies, which contain £339.1m (2008: £337.3m) of the group's properties.

At 31st December 2009, £738.7m (2008: £753.9m) of the group's properties are subject to a fixed charge to secure the company's bank loans.

## 26 Borrowings and derivative financial instruments (continued)

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

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
<b>Group</b>							
<b>At 31st December 2009</b>							
Bank overdrafts	5.9	–	–	–	–	–	5.9
Bank loans	–	95.0	–	315.0	65.0	28.0	503.0
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Loan notes	–	–	1.4	–	–	–	1.4
Unsecured loans	–	–	31.1	–	–	–	31.1
Total on maturity	5.9	95.0	32.5	315.0	65.0	203.0	716.4
Leasehold liabilities	0.6	0.6	0.6	0.6	0.6	44.1	47.1
Interest on gross debt	22.1	28.2	30.0	22.2	14.0	133.0	249.5
Effect of interest rate swaps	13.3	7.7	3.3	–	(0.2)	(1.5)	22.6
Gross loan commitments	41.9	131.5	66.4	337.8	79.4	378.6	1,035.6
At 31st December 2008							
Bank overdrafts	3.6	–	–	–	–	–	3.6
Bank loans	103.0	–	115.0	–	391.0	28.0	637.0
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Loan notes	–	–	–	3.2	–	–	3.2
Unsecured loans	–	–	–	29.2	–	–	29.2
Total on maturity	106.6	–	115.0	32.4	391.0	203.0	848.0
Leasehold liabilities	1.0	0.9	1.0	1.0	1.0	69.4	74.3
Interest on gross debt	37.9	39.3	39.9	39.5	20.1	141.1	317.8
Effect of interest rate swaps	8.9	6.8	3.8	3.5	1.4	2.2	26.6
Gross loan commitments	154.4	47.0	159.7	76.4	413.5	415.7	1,266.7

Reconciliation to total debt:

	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Adjustments: Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
<b>At 31st December 2009</b>						
Maturing in:						
< 1 year	41.9	(22.1)	(13.3)	(0.6)	–	5.9
1 to 2 years	131.5	(28.2)	(7.7)	(0.6)	–	95.0
2 to 3 years	66.4	(30.0)	(3.3)	(0.6)	–	32.5
3 to 4 years	337.8	(22.2)	–	(0.6)	–	315.0
4 to 5 years	79.4	(14.0)	0.2	(0.6)	–	65.0
> 5 years	378.6	(133.0)	1.5	(36.7)	18.6	229.0
	1,035.6	(249.5)	(22.6)	(39.7)	18.6	742.4
At 31st December 2008						
Maturing in:						
< 1 year	154.4	(37.9)	(8.9)	(1.0)	–	106.6
1 to 2 years	47.0	(39.3)	(6.8)	(0.9)	–	–
2 to 3 years	159.7	(39.9)	(3.8)	(1.0)	–	115.0
3 to 4 years	76.4	(39.5)	(3.5)	(1.0)	–	32.4
4 to 5 years	413.5	(20.1)	(1.4)	(1.0)	–	391.0
> 5 years	415.7	(141.1)	(2.2)	(60.8)	19.3	230.9
	1,266.7	(317.8)	(26.6)	(65.7)	19.3	875.9

## 26 Borrowings and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
<b>Company</b>							
<b>At 31st December 2009</b>							
Bank overdrafts	5.4	–	–	–	–	–	5.4
Bank loans	–	95.0	–	100.0	65.0	–	260.0
Loan notes	–	–	1.4	–	–	–	1.4
Unsecured loans	–	–	31.1	–	–	–	31.1
Total on maturity	5.4	95.0	32.5	100.0	65.0	–	297.9
Interest on debt	5.8	9.1	7.9	6.8	1.0	–	30.6
Effect of interest rate swaps	5.2	2.2	0.8	0.1	0.1	–	8.4
Gross loan commitments	16.4	106.3	41.2	106.9	66.1	–	336.9
At 31st December 2008							
Bank overdrafts	1.3	–	–	–	–	–	1.3
Bank loans	103.0	–	115.0	–	182.0	–	400.0
Loan notes	–	–	–	3.2	–	–	3.2
Unsecured loans	–	–	–	29.2	–	–	29.2
Total on maturity	104.3	–	115.0	32.4	182.0	–	433.7
Interest on debt	15.1	15.7	14.8	14.2	4.5	–	64.3
Effect of interest rate swaps	4.0	2.7	1.2	1.0	0.9	–	9.8
Gross loan commitments	123.4	18.4	131.0	47.6	187.4	–	507.8

There are no differences for the company in 2009 or 2008 between the total on maturity shown above and total debt.

### Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
<b>Group</b>							
<b>At 31st December 2009</b>	–	<b>105.0</b>	–	<b>260.0</b>	<b>60.0</b>	–	<b>425.0</b>
At 31st December 2008	22.0	–	85.0	–	184.0	–	291.0
<b>Company</b>							
<b>At 31st December 2009</b>	–	<b>105.0</b>	–	<b>100.0</b>	<b>60.0</b>	–	<b>265.0</b>
At 31st December 2008	22.0	–	85.0	–	18.0	–	125.0

### Fixed interest rate and hedged debt

At 31st December 2009 and 31st December 2008, the group's and company's fixed rate debt comprised the Secured Bonds 2026 together with the instruments used to hedge its floating rate debt.

#### Secured Bonds 2026

On the acquisition of London Merchant Securities plc in 2007, the Secured Bonds 2026 were included at fair value less acquisition costs. This difference from its principal value is being amortised through the income statement. The fair value shown in note 27 was determined by the mid-price of £101.31 per £100.00 as at 31st December 2009 (2008: £89.36 per £100.00). The carrying value at 31st December 2009 was £193.6m (2008: £194.3m).

#### Hedged debt

The hedged debt consists of interest rate swaps and an interest rate cap. The fair value of the interest rate swaps represents 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 31st December 2009 for the period to the contracted expiry dates. The fair value of the interest rate cap represents the net cost of replacement on identical terms at prices prevailing on 31st December 2009.

	Group			Company		
	Principal £m	Weighted average interest rate %	Weighted average life Years	Principal £m	Weighted average interest rate %	Weighted average life Years
<b>At 31st December 2009</b>						
Interest rate swaps	398.0	4.731	4.03	170.0	4.712	4.10
Interest rate cap	10.0	6.010	1.46	10.0	6.010	1.46
At 31st December 2008						
Interest rate swaps	370.0	5.030	4.29	170.0	5.150	4.35
Interest rate cap	10.0	6.010	2.46	10.0	6.010	2.46

## 26 Borrowings and derivative financial instruments (continued)

### Interest rate exposure

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
<b>Group</b>						
<b>At 31st December 2009</b>						
Bank overdrafts	5.9	–	–	5.9	2.50	–
Bank loans	95.0	408.0	–	503.0	4.65	2.93
6.5% Secured Bonds 2026 <sup>1</sup>	–	–	193.6	193.6	6.50	16.22
Loan notes	1.4	–	–	1.4	–	2.09
Unsecured loans	31.1	–	–	31.1	1.36	2.47
	133.4	408.0	193.6	735.0	5.00	6.58
<b>At 31st December 2008</b>						
Bank overdrafts	3.6	–	–	3.6	5.14	–
Bank loans	257.0	380.0	–	637.0	5.80	3.79
6.5% Secured Bonds 2026 <sup>1</sup>	–	–	194.3	194.3	6.50	17.22
Loan notes	3.2	–	–	3.2	5.25	3.09
Unsecured loans	29.2	–	–	29.2	6.67	4.26
	293.0	380.0	194.3	867.3	5.96	6.59
<b>Company</b>						
<b>At 31st December 2009</b>						
Bank overdrafts	5.4	–	–	5.4	2.50	–
Bank loans	80.0	180.0	–	260.0	4.23	2.31
Loan notes	1.4	–	–	1.4	–	2.09
Unsecured loans	31.1	–	–	31.1	1.36	2.47
	117.9	180.0	–	297.9	4.02	3.07
<b>At 31st December 2008</b>						
Bank overdrafts	1.3	–	–	1.3	5.14	–
Bank loans	220.0	180.0	–	400.0	5.98	3.16
Loan notes	3.2	–	–	3.2	5.25	3.09
Unsecured loans	29.2	–	–	29.2	6.67	4.26
	253.7	180.0	–	433.7	6.01	3.15

<sup>1</sup> The weighted average cost of debt for the Secured Bonds is based on the nominal amount of £175.0m.

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.

	2009 Receivable £m	2009 Payable £m	2008 Receivable £m	2008 Payable £m
<b>Group</b>				
Maturing in:				
< 1 year	4.8	(18.1)	8.9	(17.8)
1 to 2 years	8.2	(15.9)	9.5	(16.3)
2 to 3 years	12.2	(15.5)	10.2	(14.0)
3 to 4 years	8.0	(8.0)	10.2	(13.7)
4 to 5 years	5.2	(5.0)	4.8	(6.2)
> 5 years	12.5	(11.0)	8.6	(10.8)
Gross contractual cash flows	50.9	(73.5)	52.2	(78.8)
<b>Company</b>				
Maturing in:				
< 1 year	2.0	(7.2)	3.9	(7.9)
1 to 2 years	2.8	(5.0)	3.7	(6.4)
2 to 3 years	4.0	(4.8)	3.0	(4.2)
3 to 4 years	4.7	(4.8)	2.9	(3.9)
4 to 5 years	3.9	(4.0)	3.0	(3.9)
> 5 years	6.9	(6.9)	8.6	(8.6)
Gross contractual cash flows	24.3	(32.7)	25.1	(34.9)

## 27 Financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
<b>Group</b>					
Financial assets					
Cash and cash equivalents	–	19.0	–	19.0	19.0
Other assets – current <sup>1</sup>	–	33.4	–	33.4	33.4
	–	52.4	–	52.4	52.4
Financial liabilities					
Bank overdrafts	–	–	(5.9)	(5.9)	(5.9)
Borrowings due after one year	–	–	(542.9)	(542.9)	(542.9)
6.5% Secured Bonds 2026	–	–	(193.6)	(193.6)	(177.3)
Derivative financial instruments	(23.0)	–	–	(23.0)	(23.0)
Other liabilities – current <sup>2</sup>	–	–	(22.3)	(22.3)	(22.3)
	(23.0)	–	(764.7)	(787.7)	(771.4)
<b>At 31st December 2009</b>	<b>(23.0)</b>	<b>52.4</b>	<b>(764.7)</b>	<b>(735.3)</b>	<b>(719.0)</b>
Financial assets					
Cash and cash equivalents	–	10.5	–	10.5	10.5
Other assets – current <sup>1</sup>	–	31.6	–	31.6	31.6
	–	42.1	–	42.1	42.1
Financial liabilities					
Bank overdrafts	–	–	(3.6)	(3.6)	(3.6)
Borrowings due within one year	–	–	(103.0)	(103.0)	(103.0)
Borrowings due after one year	–	–	(575.0)	(575.0)	(575.0)
6.5% Secured Bonds 2026	–	–	(194.3)	(194.3)	(156.3)
Derivative financial instruments	(26.9)	–	–	(26.9)	(26.9)
Other liabilities – current <sup>2</sup>	–	–	(13.1)	(13.1)	(13.1)
	(26.9)	–	(889.0)	(915.9)	(877.9)
<b>At 31st December 2008</b>	<b>(26.9)</b>	<b>42.1</b>	<b>(889.0)</b>	<b>(873.8)</b>	<b>(835.8)</b>

<sup>1</sup> Other assets includes all amounts shown as trade and other receivables in note 22 except prepayments of £13.2m (2008: £7.1m) for the group and prepayments and sales and social security taxes of £2.7m (2008: £1.0m) for the company. All amounts are non-interest bearing and are receivable within one year.

<sup>2</sup> Other liabilities for the group includes all amounts shown as trade and other payables in note 24 except deferred income of £34.8m (2008: £33.5m) and sales and social security taxes of £1.9m (2008: £1.0m). For the company, other liabilities represents trade and other payables, excluding £0.8m of sales and social security taxes in 2008. All amounts are non-interest bearing and are due within one year.

## 27 Financial assets and liabilities (continued)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
<b>Company</b>					
Financial assets					
Other assets – current <sup>1</sup>	–	631.6	–	631.6	631.6
	–	631.6	–	631.6	631.6
Financial liabilities					
Bank overdrafts	–	–	(5.4)	(5.4)	(5.4)
Borrowings due after one year	–	–	(292.5)	(292.5)	(292.5)
Derivative financial instruments	(9.4)	–	–	(9.4)	(9.4)
Other liabilities – current <sup>2</sup>	–	(259.5)	(8.3)	(267.8)	(267.8)
	(9.4)	(259.5)	(306.2)	(575.1)	(575.1)
<b>At 31st December 2009</b>	<b>(9.4)</b>	<b>372.1</b>	<b>(306.2)</b>	<b>56.5</b>	<b>56.5</b>
Financial assets					
Other assets – current <sup>1</sup>	–	697.0	–	697.0	697.0
	–	697.0	–	697.0	697.0
Financial liabilities					
Bank overdrafts	–	–	(1.3)	(1.3)	(1.3)
Borrowings due within one year	–	–	(103.0)	(103.0)	(103.0)
Borrowings due after one year	–	–	(329.4)	(329.4)	(329.4)
Derivative financial instruments	(12.1)	–	–	(12.1)	(12.1)
Other liabilities – current <sup>2</sup>	–	(154.3)	(6.6)	(160.9)	(160.9)
	(12.1)	(154.3)	(440.3)	(606.7)	(606.7)
<b>At 31st December 2008</b>	<b>(12.1)</b>	<b>542.7</b>	<b>(440.3)</b>	<b>90.3</b>	<b>90.3</b>

<sup>1&2</sup> See page 93 for key.

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

	<b>Group 2009 £m</b>	2008 £m	<b>Company 2009 £m</b>	2008 £m
Net financial assets and liabilities	<b>(730.6)</b>	(873.8)	<b>56.5</b>	90.3
Other assets – current	<b>(38.1)</b>	(31.6)	<b>(661.9)</b>	(697.0)
Other liabilities – current	<b>22.3</b>	13.1	<b>160.9</b>	160.9
Cash and cash equivalents	<b>(19.0)</b>	(10.5)	–	–
Total net borrowings and derivatives	<b>(765.4)</b>	(902.8)	<b>(444.5)</b>	(445.8)

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 2009 or 2008.

### 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 42 and 53.

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 discussion has been made of the company.

## 27 Financial assets and liabilities (continued)

### Financial instruments – risk management (continued)

#### Principal financial instruments

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

#### General objectives, policies and processes

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

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

#### Credit risk

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

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions only independently rated parties with minimum rating of investment grade are accepted. This risk is reduced by the short periods that money is on deposit at any one time. The group does not enter into derivatives to manage credit risk. The 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 22.

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

#### Market risk

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

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

The group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently group policy that between 40% and 75% of external group borrowings (excluding finance lease payables) are fixed rate borrowings. Where the group wishes to vary the amount of external fixed rate debt it holds (subject to it being at least 40% and no more than 75% of expected group borrowings, as noted above), the group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the board accepts that this policy neither protects the group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. During both 2009 and 2008, the group's borrowings at variable rate were denominated in sterling.

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 £0.7m (2008: £1.4m) or a decrease of £0.7m (2008: £1.5m).

The group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 26). The group generally raises long-term borrowings at floating rates and swaps them into fixed.

#### Liquidity risk

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

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

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

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

## 27 Financial assets and liabilities (continued)

### Financial instruments – risk management (continued)

#### Capital disclosures

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

The group's objectives when maintaining capital are:

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

The group sets the amount of capital it requires in proportion to risk. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the group monitors capital on the basis of balance sheet gearing and property gearing. During 2009, the group's strategy, which was unchanged from 2008, was to maintain the balance sheet gearing below 80% in normal circumstances. As was identified in last year's annual report and accounts, the definition of profit and loss gearing has been changed in order to align it more closely to the group's most commonly used interest cover ratio covenant. These three gearing ratios are defined on page 108 and are derived below:

#### Balance sheet gearing

	2009 £m	2008 £m
Total debt	742.4	875.9
Less: cash and cash equivalents	(19.0)	(10.5)
Net debt	723.4	865.4
Net assets	1,163.9	1,215.0
Balance sheet gearing	62.2%	71.2%

#### Property gearing

	2009 £m	2008 £m
Net debt	723.4	865.4
Fair value adjustment to secured bonds	(18.6)	(19.3)
Leasehold liabilities	(7.4)	(8.6)
Drawn facilities	697.4	837.5
Fair value of investment property	1,918.4	2,108.0
Property gearing	36.4%	39.7%

#### Profit and loss gearing

	2009 £m	2008 £m
Gross property income	123.8	119.0
Surrender premiums	(0.1)	(0.2)
Ground rent	(1.3)	(1.3)
Net rental income	122.4	117.5
Net finance costs	33.4	55.5
Foreign exchange gain/(loss)	3.6	(8.3)
Net pension return	0.1	0.3
Finance lease cost	(0.6)	(0.6)
Non-cash amortisation*	0.6	0.6
Net interest payable	37.1	47.5
Profit and loss gearing	330%	247%

\*Amortisation of bond fair value and issue costs.

## 28 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
<b>Group</b>			
Deferred tax liability			
At 1st January 2009	8.9	(1.7)	7.2
Provided during the year in the income statement	–	1.0	1.0
Released during the year in the income statement	(0.8)	(1.5)	(2.3)
<b>At 31st December 2009</b>	<b>8.1</b>	<b>(2.2)</b>	<b>5.9</b>
At 1st January 2008	13.1	(2.3)	10.8
Provided during the year in the income statement	–	0.6	0.6
Released during the year in the income statement	(4.2)	–	(4.2)
At 31st December 2008	8.9	(1.7)	7.2
<b>Company</b>			
Deferred tax asset			
At 1st January 2009		0.3	0.3
Provided during the year in the income statement		1.3	1.3
<b>At 31st December 2009</b>		<b>1.6</b>	<b>1.6</b>
At 1st January 2008		1.3	1.3
Released during the year in the income statement		(1.0)	(1.0)
At 31st December 2008		0.3	0.3

Due to the group's conversion to REIT status on 1st July 2007, deferred tax is only provided on the revaluation surplus of properties outside the REIT regime. 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 available indexation on the historic cost of the properties and any available capital losses.

At 31st December 2008, due to the uncertainty over their availability, £11.9m of tax losses were not recognised as a deferred tax asset. There were no such tax losses at 31st December 2009.

## 29 Equity

The authorised share capital was £6.04m at 1st January 2008, 31st December 2008 and 31st December 2009.

The number of 5p ordinary shares in issue at the year end was 100,950,263 (2008: 100,807,146). During the year, 105,250 shares (2008: no shares) were issued as a result of the exercise of share options which realised proceeds of £0.7m (2008: £nil) and 37,867 shares (2008: 103,952) were issued as a result of awards vesting under the group's performance share plan. The number of outstanding share options and other share awards granted are disclosed in the report on directors' remuneration on pages 55 to 62 and note 13.

## 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	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS). Fair value of equity instruments granted but not yet exercised under share-based payments. Foreign exchange reserve amounting to £4.0m at 31st December 2009 (2008: £7.6m) which relates to gains or losses arising on retranslating the net assets of overseas operations.
Retained earnings	Cumulative net gains and losses recognised in the group income statement.

## 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. Loss for the year includes a loss of £67.0m (2008: £260.2m) which has been dealt with in the accounts of the company.

### 32 Dividend

	2009 £m	2008 £m
Final dividend of 16.35p (2008: 15.00p) per ordinary share declared during the year relating to the previous year's results	<b>16.5</b>	15.1
Interim dividend of 8.15p (2008: 8.15p) per ordinary share declared during the year	<b>8.2</b>	8.2
	<b>24.7</b>	23.3

Of the dividend of £24.7m (2008: £23.3m), £24.3m (2008: £22.5m) was paid in the current year, representing £0.8m (2008: £nil) withholding tax relating to the prior year and £23.5m (2008: £22.5m) relating to the current year dividend. Withholding tax relating to the current year of £1.3m (2008: £0.8m) will be paid after the balance sheet date.

The directors are proposing the payment of a final dividend in respect of the current year's results of 18.85p (2008: 16.35p) per ordinary share which would total £19.0m (2008: £16.5m). As required by IAS 10, Events after the Reporting Period, this dividend has not been accrued at the balance sheet date. This equates to a total dividend relating to the results for the year of 27.00p (2008: 24.50p).

### 33 Cash and cash equivalents

	Group 2009 £m	2008 £m	Company 2009 £m	2008 £m
Overdrafts	<b>(5.9)</b>	(3.6)	<b>(5.4)</b>	(1.3)
Short-term deposits	<b>19.0</b>	10.5	–	–
	<b>13.1</b>	6.9	<b>(5.4)</b>	(1.3)

### 34 Net asset value per share

	Net assets £m	Deferred tax on revaluation surplus £m	Fair value of derivative financial instruments £m	Fair value adjustment to secured bonds £m	Adjusted £m
At 31st December 2009					
Net assets	1,163.9	8.1	23.0	20.2	1,215.2
Minority interest	(36.7)	(0.3)	0.4	–	(36.6)
Net assets attributable to equity shareholders	1,127.2	7.8	23.4	20.2	1,178.6
Net asset value per share attributable to equity shareholders (p)	<b>1,117</b>	<b>8</b>	<b>23</b>	<b>20</b>	<b>1,168</b>
At 31st December 2008					
Net assets	1,215.0	8.9	26.9	20.9	1,271.7
Minority interest	(35.4)	(0.5)	–	–	(35.9)
Net assets attributable to equity shareholders	1,179.6	8.4	26.9	20.9	1,235.8
Net asset value per share attributable to equity shareholders (p)	1,170	8	27	21	1,226

The number of issued and fully paid up ordinary shares in issue at 31st December 2009 was 100,950,263 (2008: 100,807,146).

The total net assets of the group and those attributable to equity shareholders are shown in the table above. An adjustment is made for the deferred tax on the revaluation surplus and the post tax fair value of derivative financial instruments and the fair value adjustment to the secured bond are excluded, on the basis that these amounts are not relevant when considering the group as an ongoing business.

Reconciliation to EPRA figures:

	2009 p	2008 p
Net asset value per share attributable to equity shareholders	<b>1,168</b>	1,226
Deduct: fair value adjustment to secured bonds	<b>(20)</b>	(21)
	<b>1,148</b>	1,205
Adjustment for dilutive share-based payments	<b>(7)</b>	(5)
Diluted EPRA net asset value per share	<b>1,141</b>	1,200

### 35 Recurring profit before tax

	2009 £m	2008 £m
Loss before tax	<b>(34.9)</b>	(606.5)
Adjustment for:		
Disposal of properties	<b>16.6</b>	(1.2)
Group revaluation deficit	<b>81.1</b>	602.1
Joint venture revaluation deficit	<b>1.3</b>	1.3
Fair value movement in derivative financial instruments	<b>(3.9)</b>	28.1
Development income	<b>–</b>	(0.5)
Recurring profit before tax	<b>60.2</b>	23.3
Adjustment for:		
Reverse surrender premium	<b>–</b>	8.3
Foreign exchange (gain)/loss	<b>(3.6)</b>	8.3
One-off rates credit	<b>(2.8)</b>	–
Movement in valuation of cash-settled share options	<b>1.6</b>	(1.6)
Adjusted recurring profit before tax	<b>55.4</b>	38.3

See page 108 for definitions of recurring profit before tax and adjusted recurring profit before tax.

### 36 Total return

	2009 %	2008 %
Total return	<b>(2.7)</b>	(30.6)

Total return is calculated from the movement in adjusted net asset value per share as derived in note 34 plus the dividend per share paid during the year, expressed as percentage of the adjusted net asset value per share at the beginning of the year.

### 37 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2009 and not provided for in the accounts amounted to £31.4m (2008: £85.4m). These contracts relate wholly to the construction, development or enhancement of the group's investment properties. At 31st December 2009 and 31st December 2008, there were no obligations for the purchase, repair or maintenance of investment properties.

### 38 Contingent liabilities

The company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2009 the maximum liability that could arise for the company from the cross guarantees amounted to £0.4m (2008: £2.3m). Up to the point when it was refinanced during 2009, the company guaranteed its share of the principal and interest payable under a loan to Primister Limited. The principal guaranteed under this loan was £nil at 31st December 2009 (2008: £2.8m) and the interest payable guaranteed was £nil (2008 : £0.3m pa).

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.

### 39 Post balance sheet events

There are no transactions which require disclosure in accordance with IAS 10, Events after the Reporting Date.

## 40 Leases

	2009 £m	2008 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	<b>107.3</b>	123.1
later than one year and not later than five years	<b>302.4</b>	356.8
later than five years	<b>470.5</b>	561.7
	<b>880.2</b>	1,041.6

	2009 £m	2008 £m
Finance lease obligations		
Minimum lease payments under finance leases fall due:		
not later than one year	<b>0.6</b>	1.0
later than one year and not later than five years	<b>2.4</b>	3.9
later than five years	<b>44.1</b>	69.4
	<b>47.1</b>	74.3
Future contingent rent payable on finance leases	<b>(6.0)</b>	(22.3)
Future finance charges on finance leases	<b>(33.7)</b>	(43.4)
Present value of finance lease liabilities	<b>7.4</b>	8.6
Present value of minimum finance lease obligations:		
later than one year and not later than five years	<b>0.1</b>	0.1
later than five years	<b>7.3</b>	8.5
	<b>7.4</b>	8.6

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

	2009 £m	2008 £m
Finance charge (see note 8)	<b>0.6</b>	0.6
Contingent rent (see note 10)	<b>0.7</b>	0.7
Total	<b>1.3</b>	1.3

The group has over 800 leases granted to its tenants. These vary dependent 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 2009 was 8.9 years (2008: 13.9 years). 46% of these leases (2008: 56%) included a rent free period at the start of the lease, the weighted average being 5.0 months (2008: 10.7 months).

## 41 Related party transactions

Details of directors' remuneration are given in the report on directors' remuneration on pages 55 to 62 and note 11.

Other related party transactions are as follows:

### Group

Messrs J.D. Burns and S.P. Silver are partners in The Pilcher Hershman Partnership (PHP), estate agents. The partnership occupied offices owned by the group for which they paid a commercial rent in the year of £0.1m (2008: £0.1m). In addition, it received fees at a commercial rate in respect of the letting, acquisition and disposal of certain properties owned by the group of £0.3m (2008: £0.9m) during the year. Procedures have been established whereby the audit committee are able to verify that neither Messrs Burns nor Silver derive 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 £0.4m (2008: £0.4m). The group also contributed £0.1m (2008: £0.1m) to the company's running costs in the year.

During the year, the group paid fees at a commercial rate in respect of the acquisition of certain properties of £nil (2008: £0.1m) to Everton Phillips LLP, a firm in which the son of Mr J.D. Burns is a partner, and £0.1m (2008: £nil) in respect of the disposal of certain properties to Hamilton Investment Properties Ltd, a company of which Mr S.P. Silver's son is a director.

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

At 31st December 2009, included within other receivables in note 22 is an amount owed by the Portman Estate, the minority owner of one of the group's subsidiaries, of £8.7m (2008: £8.7m). 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.

#### 41 Related party transactions (continued)

##### Company

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

	Dividend received		Balance owed/(owing)	
	2009 £m	2008 £m	2009 £m	2008 £m
Related party				
Bramley Road Ltd	–	–	–	0.6
Derwent Valley Central Ltd	–	50.0	<b>251.9</b>	287.7
Derwent Valley London Ltd	–	–	<b>129.4</b>	131.3
Derwent Valley Property Developments Ltd	–	12.0	<b>55.9</b>	59.5
Derwent Valley Property Investments Ltd	–	–	<b>(3.5)</b>	(2.2)
Derwent Valley West End Ltd	–	–	<b>(1.9)</b>	–
Derwent Valley Property Trading Ltd	–	–	<b>(2.1)</b>	–
Derwent Valley Railway Company*	–	–	<b>(0.2)</b>	(0.2)
London Merchant Securities Ltd†	<b>8.6</b>	60.0	<b>(57.9)</b>	65.9
	<b>8.6</b>	122.0	<b>371.6</b>	542.6

\* Dormant company.

† 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. Inter-company balances are repayable on demand. No interest is charged on inter-company balances.

During the year the company became the beneficial owner of the shares in LMS (Kingston) Ltd, a company within the LMS sub-group (see note 19 for further details). During the year the company also increased its investment in two of its subsidiaries: Derwent Valley West End Ltd, by £2.0m, and Derwent Valley Property Trading Ltd, by £2.1m.

#### 42 Principal operating companies

The principal operating companies within the group at 31st December 2009 are:

	Ownership	Principal activity
Subsidiaries		
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Valley Central Limited*	100%	Property investment
Derwent Valley City Limited	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited*	100%	Property investment
Derwent Valley Properties Limited	100%	Property investment
Derwent Valley Property Developments Limited*	100%	Property investment
Derwent Valley Property Investments Limited*	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS (Goodge Street) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
Palaville Limited	100%	Property investment
Rainram Investments 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 Valley Finance Limited	100%	Finance company
London Merchant Securities Limited*	100%	Holding company

\* Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

Joint ventures		
Primister Limited	50%	Property investment
Euro Mall Sterboholly 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 Sterboholly a.s., which is registered in the Czech Republic.