

Performance

We consider that we have succeeded when our projects have not only produced distinctive properties but also helped to influence the communities in which they are located.





Property review

Valuation



Hyde Park Corner Estate SW1

Village

Belgravia

Type

Office

Value

>£75m

Size

15,700m²

Tenants

**Sir Robert McAlpine; Spectron plc;
Jupiter Investment; Lonmin plc;
Davis Service Group plc**

There was a clear change in sentiment in the commercial property investment market during 2009 as the economic environment showed signs of improvement. During the first half of the year, capital values continued the pattern of decline seen in 2008 as yields moved out and rental values weakened. However, in the second half, with improved investor confidence, investment turnover picked up substantially. Activity was initially led by overseas investors and then, towards the end of the year, UK investors became more active, particularly the domestic financial institutions. The attraction for investors was the relatively high level of income returns and the perceived value offered by the commercial property sector after the substantial capital value declines from the market peak in mid-2007. This increased demand, coupled with a lack of good quality property, led to capital value growth from yield compression in the second half of 2009.

The group's investment portfolio was valued at £1.92bn at 31st December 2009. There was a valuation deficit of £72.5m for the year, before lease incentive adjustments of £8.6m, giving a total movement of £81.1m. Whilst the underlying valuation movement over the year was a 3.3% decline, this was an improvement on the 22.1% fall in 2008 and was an outperformance against the IPD Central London Offices Capital Growth Index, which declined by 5.4% in 2009. Significantly, the valuation decline of 12.3% in the first half was substantially reversed in the second half with a 9.8% increase which was dominated by yield compression. As a result, the revaluation surplus for the second half of 2009 was £177.8m.

By location, our West End properties decreased by 2.8% over the year. Again there was a reversal of performance, from a 12.7% decline in the first half to a 10.9%

gain in the second half. In our City borders properties, 21% of the portfolio, values fell 5.3% over the year. The balance of the portfolio, now all in Scotland and representing just 5% of the total portfolio value, declined by 2.5% in 2009.

Within the investment portfolio, the development properties, principally Arup Phase III, the Angel Building and the Charlotte Building, were valued at £167.8m at the year end and showed a decrease of £4.0m or 2.3% over the year. After a decrease of 17.8% in the first half, there was a 14% valuation increase in the second half. Both Arup Phase III and the Charlotte Building were completed towards the end of the year and this drove the valuation improvement.

The portfolio's estimated rental value decreased by 11.4% in the first half of the year and 2.9% in the second, giving an overall annual decline of 14.0%. In 2008, the annual decline was 3.4%.

The portfolio's initial yield, based upon the annualised contracted rental income and after rent free periods, was 6.0% at 31st December 2009, a similar level to last year. This would rise to 6.2% after letting the vacant available space and to 6.7% upon full reversion. The portfolio's true equivalent yield was 6.4% at the year end, a decrease from both the 7.1% at the start of the year and the 7.3% at the half year.

The group's total property return for 2009 was 1.7%, a significant improvement on the -18.9% in 2008. This was an outperformance against our key performance indicator (KPI) benchmark, the IPD Central London Offices Index, which was 0.9%. There was also an outperformance against our KPI three-year measure to exceed the annualised IPD All UK Property Index on a three-year rolling basis. The portfolio performance under this measure was 4.3% pa compared to the benchmark of -8.3% pa.

Portfolio yields



— Initial yield
— True equivalent yield
— Reversionary yield

Previous page:
The Angel Building, EC1

Property review

Portfolio management

Charlotte Building

84%

let within five months

The appeal of our well-designed office space remained strong throughout the year, despite the challenging letting market environment. We successfully completed a total of 101 lettings with a floor area of 31,500m² and a combined rental income of £9.3m pa. Of this, £6.6m pa was from space that was not income-producing at the start of 2009. Overall, lettings were concluded at 14.7% below the valuers' estimated rental values at the start of the year. However, a number of transactions were short-term lettings at reduced rents, which were structured to retain future development flexibility. Excluding these, lettings were 10.1% below valuers' estimates. As a rental comparison, the IPD Central London Offices Index showed a rental value decline of nearly 20% for the year.

We began to see signs of rental stabilisation during the second half of 2009 with 55% of our activity by income over this period at or above the June rental value estimates.

The year began with the letting of the remaining office space at the 10,000m² **Qube** building in Fitzrovia. EDF, one of Europe's largest energy companies, took 2,900m² at a rent of £1.5m pa, while ScanSafe, a subsidiary of technology giant Cisco Systems, took 600m² at £0.3m pa. Letting activity continued, leading to the conclusion of our 100th letting for the year in December. This came with the arrival of Innocent Drinks, a leading fruit smoothie company, at **Portobello Dock**, our urban regeneration development spanning the Grand Union Canal in west London, which was recently shortlisted for the World Architecture Festival Awards.

101

lettings,

£9.3m

pa rental income

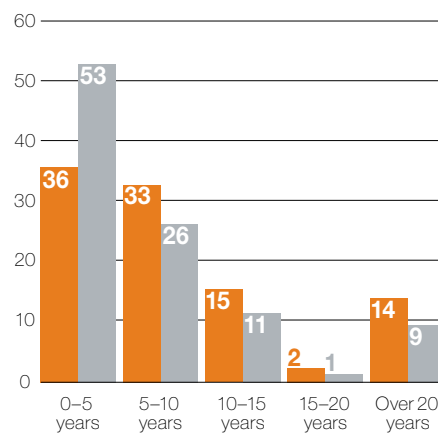
On our larger projects, we completed the elegant 4,400m² new-build **Charlotte Building**, Noho, in October. Letting activity in this sophisticated building, designed by award-winning architects Lifschutz Davidson Sandilands, was swift and, by the year end, Unanimis, one of London's largest digital advertising networks, and Icon Entertainment had taken 1,200m² and 600m², respectively, at a combined annual rent of £0.9m.

Our smaller refurbishments also proved popular with tenants. At the **Tea Building**, opposite the new Shoreditch High Street railway station, which is scheduled to open in June 2010, we reconfigured a number of units and attracted a range of dynamic occupiers including Oakley, a high-fashion sunglasses company, and the private members' club, Soho House. Elsewhere, we refurbished the entire 1,100m² building at **45-51 Whitfield Street**, Fitzrovia, and pre-let it to Target Media, one of the fastest growing independent media agencies in the UK.

Tenant demand has remained buoyant since the year end. Two further lettings have been signed at the **Charlotte Building**: Converse (a division of Nike) and Brandopus have leased 1,400m² and 500m², respectively, at a total rent of £0.9m pa. A single floor remains available and there is strong interest in this space. To date, we have concluded 13 lettings in 2010 at a rent of £1.4m pa with a floorspace of 4,300m². Additionally, over 4,000m² of space is under offer at a rent of approximately £1.1m pa.

Profile of rental income expiry

% of rental income¹



■ No lease breaks exercised
■ Lease breaks exercised at first opportunity

¹Based upon contracted net rental income of £114.9m pa

Property review

Portfolio management

(continued)

41

rent reviews,

£1.2m

pa additional income

The low rental characteristics of our portfolio enabled us to capture important reversion through rent reviews and lease renewals. Over the year, 41 rent reviews were settled, at a 15% uplift, adding £1.2m pa to the group's contracted rent roll. Lease renewals were also profitable, with 38 transactions increasing the annual income from £1.5m to £1.8m – an 18% uplift.

At the start of 2009, just under 10% of the portfolio's annual contracted rental income was subject to lease expiries or break options during the year. We enjoyed a high retention rate thanks to our intensive asset management: in total, 66% of this income was retained and 18% re-let prior to the year end. Of the balance, 24% has subsequently been let or is under offer.

Minimising our voids was a key asset management target during the year. This was achieved, with the vacancy rate remaining low, and relatively unchanged, throughout 2009. The group's vacancy rate by rental value, measured as space immediately available for occupation, started the year at 3.8%, rose to 4.2% in the spring before declining to 3.6% by the year end.

Average unexpired lease length

Years



— West End
— City borders
— Central London



Covent Garden Estate WC2

Village

Covent Garden

Type

Office/Retail/ Restaurant

Value

£25m – £50m

Size

6,700m²

Tenants

F&C Asset Management;
Moss Bros Group plc; Carluccio's;
Hackett; Beale & Co Solicitors

This reduction occurred even after the completion of the Charlotte Building, which was reclassified from 'projects' to 'available space'. By floor area, the group's year end vacancy rate fell from 4.0% to 3.8% over the year, significantly lower than the CBRE central London year end rate of 7.2%, or 6.8% for the West End. Looking ahead to the new financial year, the completion of the highly efficient, AHMM-designed Angel Building during the summer of 2010 could potentially increase the vacancy rate to 6.8% by rental income or 6.2% by floor area.

Income collection and tenant monitoring was robust during 2009. Rent collected within 14 days of the quarter day averaged 96% over the year, a similar level to 2008 and a strong performance in the context of the economic climate. This was above our key performance indicator target of 95%.

Tenant defaults remained low, with only 13 tenants going into administration during the year.

Continuing low vacancy rate

Portfolio statistics and performance

	Valuation £m	Weighting %	Valuation performance ¹ %	Valuation performance £m	Total floor area m ²	Available floor area m ²	Project floor area ² m ²
West End							
Central	1,299.1	68	(0.6)	(15.6)	260,100	6,200	7,700
Outer	121.7	6	(20.8)	(32.0)	53,700	2,000	1,200
	1,420.8	74	(2.8)	(47.6)	313,800	8,200	8,900
City							
Outer	405.5	21	(5.3)	(22.5)	125,100	5,200	2,900
Central London	1,826.3	95	(3.3)	(70.1)	438,900	13,400	11,800
Provincial	92.1	5	(2.5)	(2.4)	36,700	4,700	100
Total portfolio 2009⁴	1,918.4	100	(3.3)	(72.5)	475,600	18,100	11,900
2008	2,108.0	100	(22.1)	(597.1)	520,400	20,700	21,200

¹ Properties held throughout the year

² Excludes Angel project as the building was income-producing at the year end

	Net contracted rental income per annum £m	Average rental income £ per m ²	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length ³ Years
West End						
Central	73.0	283	5.1	3.6	81.7	9.1
Outer	7.5	140	0.6	5.4	13.5	2.5
	80.5	258	5.7	9.0	95.2	8.5
City						
Outer	29.2	235	1.5	(0.6)	30.1	5.5
Central London	109.7	252	7.2	8.4	125.3	7.7
Provincial	5.2	142	0.7	–	5.9	7.1
Total portfolio 2009⁴	114.9	243	7.9	8.4	131.2	7.7
2008	126.4	266	14.2	27.2	167.8	8.3

³ Lease length weighted by rental income and assuming tenants break at first opportunity

⁴ See pages 102 and 103 for a list of principal properties

Portfolio yields

	Core rental income per annum £m	Angel Building rental income per annum £m	Total rental income per annum £m	Yield ⁵ %
Annualised contracted rental income, net of ground rents ⁶	110.7	4.2	114.9	6.0
Letting 18,100m ² available floor area	4.7	–	4.7	6.2
Completion and letting 11,900m ² of project floor area	3.2	–	3.2	6.4
Angel additional rental income upon letting the development	–	5.7	5.7	6.6
Anticipated rent review and lease renewal reversions	2.7	–	2.7	6.7
Portfolio reversion			16.3	
Potential portfolio rental value	121.3	9.9	131.2	

⁵ Yield based upon the year end valuation and adjusted for costs to complete commenced projects

⁶ Includes rental income from pre-lets

Property review

Projects and investment activity

Over 22,000m² of space completed during the year



Charlotte Building 17 Gresse Street W1

Village

Noho

Type

Office

Value

£25m – £50m

Size

4,400m²

Tenants

Converse; Unanimis; Icon Entertainment; Brandopus

Projects

We completed two major projects during the year:

Arup Phase III, 8 Fitzroy Street, Fitzrovia
This 7,900m² office building, designed by Sheppard Robson around a full-height open atrium and located in the heart of our Fitzrovia village, was completed in December. It is the final phase of our Arup pre-let. Phases II and III now form a single seven-storey building of 13,700m² that is let on a 25-year lease, with no breaks, at a rent of £6.2m pa, representing £450 per m² (£42 per sq ft).

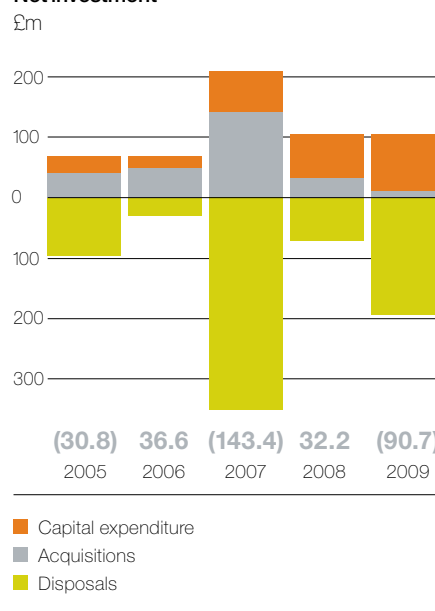
Charlotte Building, 17 Gresse Street, Noho
This elegant 4,400m² office building was completed in October and is now 84% let.

Following these completions, we are now concentrating on the delivery of the 24,400m² **Angel Building** development, our largest project to date. This six-storey office and retail scheme is due to be completed in the summer of 2010 and we are confident that this will benefit our portfolio. Cancer Research UK, one of the country's leading charities, has already chosen the Angel Building as its new headquarters. They have pre-let 53% of the space at a rent of £5.6m pa.

Capital expenditure on the above projects totalled £63.3m during the year. A further £32.3m is budgeted to complete the Angel Building.

In addition, we continued to be active throughout the portfolio on a number of smaller schemes. Over 10,000m² was completed during the year and at the year end we were on-site with five such projects totalling 4,200m² with a potential annual rental value of £1.3m. Just over half of this floorspace has been pre-let at an income of £0.8m pa. These projects include a 26-bedroom boutique hotel at the **Tea Building**, pre-let to Soho House and 600m² of offices at **43 Whitfield Street**, pre-let to Feilden Clegg Bradley, architects. The total cost of these projects is £9.3m, with £3.7m yet to be incurred.

Net investment



To take full advantage of the improved tenant demand, we are commencing more than 18,000m² of refurbishments during 2010. These will have a total capital expenditure of approximately £37m. The rental value on completion is estimated at £6.5m pa, significantly more than the year end income from these properties of £3.5m. In particular, we are about to begin the 3,900m² refurbishment of **Victory House** in Fitzrovia.

As part of our development programme, we aim to commence a 7,100m² office building at **63 Clerkenwell Road** early next year. The start of this project is subject to the satisfactory outcome of a planning appeal decision in May as our initial application was refused, despite having recommendation for approval from the borough's planning officer. It would involve £28m of capital expenditure and deliver a striking, high-quality building in Clerkenwell.

A strong pipeline of projects

Future capital expenditure:

c£175m

on identified schemes



1 Oliver's Yard EC2

Village

Old Street

Type

Office

Value

£50m – £75m

Size

17,200m²

Tenants

Telecitygroup; Sage Publications;
Morningstar; Skidmore, Owings & Merrill

We hold five significant planning consents, which ultimately could deliver 74,400m² of new space – an uplift of 171% from the current floorspace. Our City Road Estate is at the forefront of these plans. Here, we are in the process of redesigning the scheme to offer 27,400m² of predominantly office space. We anticipate submitting a revised planning application later this year. While we continue to advance plans on all our consented schemes, we are ensuring that the existing properties, which produce £3.7m pa, remain income producing.

In addition, we are continuing to work on a number of exciting appraisal studies that have the potential to achieve major floorspace gains. Our most advanced work is at **132-142 Hampstead Road, Euston**, where we have innovative proposals for a new concept of office space. This approach is centred around the design of low energy, user friendly offices that use the building's volume and structure to aid the efficient control of the working environment. It will also provide the occupier greater flexibility to tailor the space to their specific requirements. We have coined this concept the 'White Collar Factory' → see page 22 and at Hampstead Road we are finalising a planning application to provide 26,000m² of such space. Subject to planning approval, we are looking to commence this major refurbishment and extension in the second half of 2011, when the existing tenancies expire.

We are also progressing the next major regeneration project on our Fitzrovia Estate. At **80 Charlotte Street**, we obtain vacant possession on the 18,600m² buildings in 2013. One option is a 27,900m² office scheme that would regenerate and extend the existing buildings.

Finally, we continue to advance our long-term development plans at **1 Oxford Street** at the junction of Charing Cross Road. This important West End site, at the eastern end of Oxford Street, is the location of a major transport interchange. Our interests were compulsorily purchased during the year; however, we have an option to buy back the site upon completion of the London Underground and Crossrail station works. These are anticipated to complete in or around 2016. We are working closely with both organisations on a planning application for a mixed-use development of approximately 19,000m², which is likely to be submitted this summer.

Investment activity

It was inevitable that the first half of 2009 would see limited investment turnover, due to market nervousness and ongoing constraints in the debt market – a key source of finance for the commercial property market. During this period, we made £39.1m of disposals after costs. However, we took advantage of improving investor sentiment in the second half of the year with £169.2m of disposals.

During the year, 50 properties, with a floor area of 47,200m² and which consisted of mature or non-core smaller properties as well as three compulsorily purchased properties at Charing Cross Road, were sold for £208.3m. The properties had an annual income of £14.2m and reflected a disposal yield of 6.8%. Excluding the compulsorily purchased properties where the final sale price is subject to a formal valuation process, disposals were 4.4% below the December 2008 valuation. Including these properties, the figure was 7.4%. The two largest transactions were:

- **Arup Phase I**, 13 Fitzroy Street, Fitzrovia
In July, we sold this 8,400m² eight-storey office building to Arup, the tenant, for £59.4m after costs, reflecting a net initial yield of 7.0%. This was a mature property that had been refurbished and let on a lease expiring in 2023 at a rent of £4.5m pa; and
- **The Rotunda**, Kingston-upon-Thames
This 15,700m² leisure complex was sold in November for £41.4m after costs, reflecting a net initial yield of 7.4%.

Although we made no significant acquisitions during the year, we did acquire certain small buildings that will facilitate a number of future redevelopment opportunities.

While the supply of potential acquisitions has been limited over the last few months, we are now seeing more properties appear on the market. The group has £425m of committed unutilised debt facilities so we are strongly positioned to take advantage of any acquisition opportunities that may arise in the future.

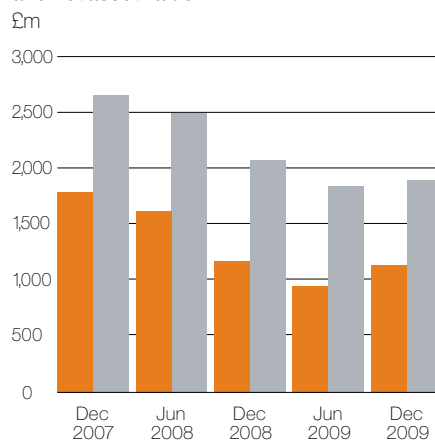
Finance review

Results

Net asset value per share

As reported in both the chairman's statement and the property review, following a steep decline in central London property values in the first half of 2009, there was a substantial recovery during the second half of the year. As a result, the group's adjusted net asset value per share attributable to ordinary shareholders as at 31st December 2009 of 1,168p was only 4.7% lower than the prior year; the comparative figure as at 31st December 2008 was 1,226p which, by 30th June 2009, had fallen to 993p. The equivalent adjusted net asset value at 31st December 2009 was £1,179m against £1,236m in December 2008 and £1,001m at the 2009 half year. A full analysis of the trends within the property portfolio can be found in the property review but the overall revaluation deficit on investment properties was relatively modest at £81.1m after a decline of £258.9m in the first half of 2009 and compares with the sizeable decrease of £602.1m for the whole of 2008.

Movement in investment property and net asset value



■ Net asset value attributable to equity shareholders
■ Investment property

Reconciliation of group net asset value to adjusted net asset value:

	2009 £m	2008 £m
Net assets as reported	1,163.9	1,215.0
Deferred tax on revaluation surplus	8.1	8.9
Fair value of derivatives	23.0	26.9
Unamortised fair value adjustment to secured bonds	20.2	20.9
Minority interests	(36.6)	(35.9)
Adjusted net assets attributable to equity shareholders	1,178.6	1,235.8

Net property income movement from 2008:

	£m	£m
2008 gross property income	119.0	
Effect of acquisitions	0.5	
Disposals	(4.9)	
Lettings and rent reviews	13.7	
Voids	(4.5)	
2009 gross property income		123.8
2008 total property outgoings	(24.9)	
Rates credit in 2009	2.8	
Reduced legal and letting fees	1.3	
Cost of lease surrender in 2008	8.3	
Trading property writedown in 2008	2.0	
2009 property outgoings		(10.5)
2009 other income		1.5
2009 net property income		114.8

Group income statement

Putting property valuation movements to one side, 2009 was a very strong year for group recurring profit both before and after tax due principally to robust underlying net property income, low net finance costs and the utilisation of previously unrecognised tax losses.

Gross property income increased to £123.8m for the year ended 31st December 2009 as compared to £119.0m for the previous year. The strong letting performances during 2008 and 2009 were partially offset by lower recurring rental income following significant investment property sales towards the end of the year. The impact of these sales will be reflected more in the recurring earnings for 2010; properties sold in 2009 produced annualised gross rental income of £14.2m.

Net property income, after allowing for irrecoverable expenditure and ground rents, increased strongly to £114.8m in 2009 from £95.5m in 2008; the latter was adversely affected by a reverse surrender premium of £8.3m and a provision of £2.0m against the carrying value of trading properties. Net property income in 2009 benefited from a reduction in letting and legal costs of £1.3m compared to the previous year which also included the cost of the Horseferry House lease. In addition, following a thorough review of commercial rates payable across the portfolio, a one-off rates credit of £2.8m has been recognised in 2009.

Group administrative costs increased from £18.3m in 2008 to £20.0m in 2009 mostly due to increased staff costs resulting from a 13% higher headcount. This reflects the full internalisation of the property management function during the year which was previously mostly outsourced. In addition, the 2009 income statement includes a charge of £1.6m for the increase in fair value of cash-settled share options against a credit in 2008 of £1.6m; these movements are outside our direct control as they are linked to share price performance.

The net finance cost within the income statement reflects the troubled nature of debt markets over much of the last two years though our interest rate hedging policy has naturally mitigated the impact of interest rate movements. LIBOR was high through the first nine months of 2008 but has fallen to historically low levels since and floating interest rates remained very low throughout 2009. Due mainly to the reduction in the average cost of our debt as well as the lower net debt position resulting from our property sales programme, net finance costs excluding foreign exchange gains and losses reduced significantly during the year to £37.0m from £47.2m in 2008. The foreign exchange movements arose on the retranslation of a US dollar-denominated loan from a non-trading US subsidiary. In 2009, as sterling recovered some of its 2008 losses, the income statement reflected a foreign exchange gain of £3.6m against a loss of £8.3m in 2008; in both years, the net asset impact is effectively nil as there is an equal and opposite movement taken to reserves.

The result of the above is that the recurring profit before taxation for 2009 was £60.2m, a figure enhanced to some extent by certain items which are unlikely to be repeated in 2010. The comparative figure for 2008 was £23.3m. Adjusting both years to remove the impact of the items discussed above gives an adjusted recurring profit before taxation of £55.4m for 2009 against £38.3m in the

previous year, which equates to a year on year improvement of almost 45%. These adjustments have been made to provide a clearer indication of the trend in underlying recurring profits.

The group loss before taxation is a function of recurring profit before taxation as well as the property revaluation movement, adjustment to the fair value of derivatives, and profits or losses on the sales of investment properties. In 2009, the revaluation deficit was £81.1m for the group's property portfolio and £1.3m for the group's share of joint ventures against comparative figures of £602.1m and £1.3m, respectively. The theoretical mark-to-market cost of unwinding the group's interest rate hedging instruments decreased by £3.9m in 2009 as interest rate expectations in the medium-term picked up. The prior year had seen a significant deterioration in sentiment such that the fair value adjustment taken to the income statement in 2008 was a cost of £28.1m. The net proceeds of £201.8m on the sale of investment properties during 2009 were predominantly contracted in a falling market and, hence, showed a loss against 2008 book value amounting to £16.6m or about 7.7%. More than half of the loss on disposal recognised in 2009 results from our best estimate of the losses on three properties in Charing Cross Road subject to compulsory purchase orders in connection with the Crossrail project. The final reckoning of the proceeds payable by Crossrail remains under negotiation. The total profit on investment property disposals in 2008 was £1.2m on net proceeds of £72.6m.

The resulting effect of all these factors was a reported loss before taxation for the year of £34.9m in 2009 as compared with a loss of £606.5m in 2008.

Taxation

The net tax credit arising in 2009 was £9.4m compared to £9.3m in 2008. Both years benefited from the reversal of tax provisions as prior year losses were utilised following agreement with HMRC. The tax credit recognised in 2009 was £11.1m and in 2008 was £7.1m. Current year tax charges on the non-REIT part of the UK business were £3.0m, an increase from £1.4m in 2008. The prior year also showed a higher deferred tax credit due to the larger revaluation deficit in that year.

European Public Real Estate Association (EPRA) data

As a member of EPRA, we support their aim to provide industry-standard measures of adjusted net asset value and earnings. The table below shows the relevant figures for 2009 and the prior year:

	2009	2008
Diluted EPRA net asset value per share	1,141p	1,200p
Diluted EPRA earnings per share	55.23p	23.22p

Derivation of adjusted recurring profit before tax

	2009 £m	2008 £m
Reported loss before taxation	(34.9)	(606.5)
Adjusted for:		
Revaluation deficit	81.1	602.1
Share of joint venture revaluation deficit	1.3	1.3
Movement in fair value of derivatives	(3.9)	28.1
Loss/(profit) on sale of investment property	16.6	(1.2)
Development income	–	(0.5)
Recurring profit before tax	60.2	23.3
Add back surrender premium in 2008	–	8.3
Foreign exchange movement on intercompany loan	(3.6)	8.3
One-off rates credit	(2.8)	–
Movement in cash-settled share options	1.6	(1.6)
Adjusted recurring profit before tax	55.4	38.3

Finance review

Financing

Financing, net debt and cash flow

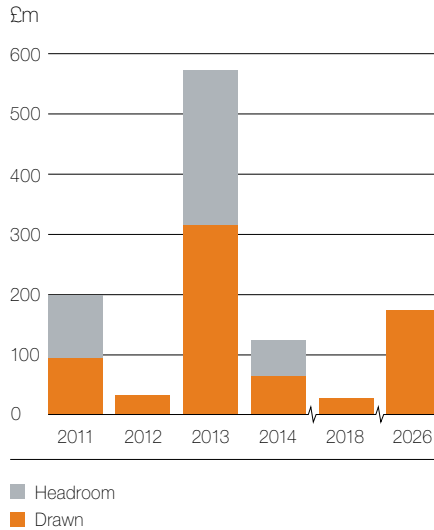
As a result of the £201.8m of property sales proceeds referred to on the previous page, the group's net borrowings have been reduced by £142.0m from £865.4m to £723.4m during 2009 despite investing £104.8m of capital expenditure and property acquisitions in our portfolio during the same year. The net cash generated during 2009 and available to repay loans was £140.2m.

A summarised cash flow for the last two years is shown below:

	2009 £m	2008 £m
Cash received from tenants	125.4	109.6
Development and other income	1.0	14.1
Less: direct property expenses	(10.2)	(22.8)
	116.2	100.9
Property disposals including trading properties	202.0	72.6
	318.2	173.5
Administrative and staff expenses	(17.1)	(16.2)
Net interest paid	(39.1)	(45.6)
Acquisitions of properties	(10.2)	(31.9)
Capital expenditure	(94.6)	(72.9)
REIT conversion charge	–	(53.6)
Dividends paid	(24.3)	(23.5)
Taxation	6.5	(8.9)
Other	0.8	(4.6)
Increase/(decrease) in cash before loan movements	140.2	(83.7)

Derwent's ability to sell in difficult market conditions is a major part of the reason for the modest level of balance sheet gearing at the end of the year, assisted by the moderate level of gearing at the start of the credit crunch. Balance sheet gearing has correspondingly been reduced to 62.2% in December 2009 from 71.2% a year earlier and the ratio of net debt to property values fell from 39.7% in December 2008 to 36.4% at 31st December 2009. Other factors in explaining why we have not needed to recapitalise the business during 2009 were sensible financial covenants under debt facilities and our consistent focus on maintaining income across the portfolio. These characteristics have, over a number of years, instilled confidence in our lenders and we will continue to nurture the valued relationships that have been built up, as well as forging new ones, through the coming years. In addition to the facilities refinanced in 2008, the group renewed a £125m bank facility in the second quarter of 2009 such that the next facility due for refinancing does not arise until December 2011. We have already started to consider options to refinance this facility and it is clear that banks are willing to lend again though only to their chosen customers.

Loan facility maturity profile



Interest margins charged by lenders on newly negotiated facilities appear to have stabilised at a level roughly twice that of two years ago and are based on lower loan-to-value ratios of up to around 60%-65%. There are signs of increasing confidence and competition amongst lenders which should lead to slightly more favourable lending terms as the year progresses but we remain cautious about medium-term refinancing prospects. The combined impact of the exceptional level of government borrowing, the weight of refinancing requirements facing the lending banks and commercial mortgage backed securities sectors over coming years and the Bank of England's programme of quantitative easing will take some time to work through the economy.

While there are uncertainties ahead, opportunities to add more projects to our portfolio will undoubtedly arise. Crucially, the actions taken by the board have increased further the headroom on our bank facilities, most of which include revolving credit facilities thereby allowing us the flexibility that we need to respond quickly. As at 31st December 2009, the group held available undrawn loan facilities of £425m, up from £291m at 31st December 2008. Based on the December 2009 security and property valuations, about £353m was immediately drawable and the group also held properties totalling £338m uncharged to lenders.

All financial covenants under loan facilities have been comfortably exceeded during the year. The group's overall interest cover ratio is an important key performance indicator within the business and an emphasis on striking the right balance between income and added value through refurbishment or development has long been an inherent trait of Derwent. The lower finance costs referred to above have prompted a strengthening of group interest cover (defined as gross property income excluding surrender premiums received less ground rents, divided by interest payable on borrowings net of cash) to 330% in 2009 against 247%

in 2008. Note also that our accounting policy is not to capitalise interest relating to any refurbishment or development project during which a property is typically not producing income.

Liability risk management

The group started 2009 with 65.7% of its debt protected by a combination of fixed rate or floating rate loans subject to interest rate swaps or caps. While the group's revolving loans have been reduced, the cost of closing out existing swap contracts was considered to be unattractive and the notional amount of swapped or capped loans has increased by £28m during the year as a new loan facility entered into in 2008 was hedged during the year. Accordingly, the proportion of loans hedged has increased to 82.1% of total debt as at 31st December 2009. This is a little above our target range of 40% to 75%; however, all other things being equal, it will revert to within that range during October 2010 upon the maturity of a £50m swap contract.

The fair value of the group's interest rate hedging derivatives has improved by £3.9m during 2009 as medium-term interest rate expectations have moved up after the significant falls of 2008 though the mark-to-market adjustment remains a liability in the group balance sheet as at 31st December 2009 of £23.0m against £26.9m in 2008.

As reported last year, IFRS 3 required the £175m secured bond to be fair valued at the date of acquisition by the group and for that fair value to be amortised over the remaining life of the bond. The residual amount as at 31st December 2009 was £20.2m (20p per share) compared with £20.9m (21p per share) in 2008.

The weighted average cost of the group's debt reduced to 5.00% as at 31st December 2009 from 5.47% a year earlier and is currently about 5.02%. The weighted average cost of the group's bank debt is 4.52% inclusive of margin.

Facility analysis

