INTERIM RESULTS 2014 ANNOUNCEMENT
DERWENT LONDON PLC

14 August 2014

Derwent London plc (“Derwent London”/ “the Group”)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014
PORTFOLIO OUTPERFORMING WITH STRONG OCCUPIER DEMAND

Financial highlights

- EPRA net asset value per share increased by 13.6% to 2,572p from 2,264p at 31 December 2013 and by 25.2% from June 2013
- EPRA profit before tax was £32.0m, an increase of 14.3% from £28.0m in June 2013
- EPRA earnings per share were 29.15p, an increase of 12.3% from 25.95p in June 2013
- Interim dividend per share of 11.65p, an increase of 8.4% from 10.75p in June 2013
- Loan-to-value ratio reduced to 25.7% from 28.0% at 31 December 2013
- Undrawn committed facilities of £364m at June 2014 up from £283m at December 2013

Performance

- Valuation uplift of 10.1% in H1 2014 (H2 2013: 7.6%; H1 2013: 4.7%)
- Outperformed IPD Central London Office Capital Growth Index which was up 8.7%
- Valuation uplift on the seven major projects on site was 11.9%
- Underlying ERV increased by 4.2% (H2 2013: 3.0%; H1 2013: 2.6%)
- Rents on H1 lettings 8.6% above December 2013 ERV, with open market lettings 17.3% above
- ERV growth guidance raised for 2014 to 6-8% from 5-7% in February 2014
- Portfolio reversion estimated at £83.0m of which 43% is contracted
- True equivalent yield tightened by 26 bps to 5.02%
- Sale of three properties for £68.1m in year to date at a 40.7% premium to December 2013 valuation

Projects

- Currently on site at seven projects totalling 626,000 sq ft with future capex of £155m
- White Collar Factory EC1 and Tottenham Court Walk W1 commenced, totalling 333,000 sq ft
- 1-2 Stephen Street W1: delivery of 84,000 sq ft offices in Q3 - 34% pre-let
- Planning applications submitted for two future West End schemes, together 163,000 sq ft

Robert Rayne, Chairman, commented:

“The Group is in a strong position, with first half performance beating expectations. London continues to attract the most innovative businesses and global capital flows. The Group is well positioned to benefit from this through its West End focus and its developments in the Tech Belt and near Crossrail stations.”

John Burns, Chief Executive Officer, commented:

“Derwent London is set to have another good year in 2014 after an excellent first half. Our confidence in our market, the quality of our brand and our strong financial position is reflected in the Group’s most substantial development programme to date.”

Webcast and conference call

There will be a live webcast of the results together with a conference call for investors and analysts at 9.30 BST today. The audio webcast can be accessed at www.derwentlondon.com.

To participate in the call, please dial the following number: +44 (0)20 3059 8125

Please say "Derwent" when asked for the participant code.

A recording of the results presentation will also be made available later in the day on www.derwentlondon.com.

For further information, please contact:

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Simon Sporborg
Sheena Shah

Notes to editors

Derwent London plc owns a portfolio of commercial real estate predominantly in central London valued at £3.7 billion as at 30 June 2014, making it the largest London-focused real estate investment trust (REIT).

Our experienced team has a long track record of creating value throughout the property cycle by regenerating our buildings via development or refurbishment, effective asset management and capital recycling.

We typically acquire central London properties off-market with low capital values and modest rents in improving locations, most of which are either in the West End or the Tech Belt. We capitalise on the unique qualities of each of our properties – taking a fresh approach to the regeneration of every building with a focus on anticipating tenant requirements and an emphasis on design.

Reflecting and supporting our long-term success, the business has a strong balance sheet with modest leverage, a robust income stream and flexible financing.

Landmark schemes in our portfolio of 5.7 million sq ft as at 30 June 2014 include Angel Building EC1, The Buckley Building EC1, White Collar Factory EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In 2014 to date the Group has won the Property Week 'Developer of the Year' and the RICS London Commercial Award, and has been shortlisted for an award by Architects' Journal. In 2013 Derwent London topped the real estate sector for the fourth year in a row and came tenth overall in the Management Today awards for 'Britain's Most Admired Companies'. During 2013 the Group was also awarded EPRA Gold for corporate and sustainability reporting, two OAS awards and AJ Retrofit and NLA awards.

For further information see www.derwentlondon.com or follow us on Twitter at @derwentlondon.

Forward-looking statements

This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Derwent London does not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast.

OVERVIEW

Derwent London is benefiting both from a strong London market and its management initiatives.

The central London market is enjoying good rental growth. Given current levels of occupier demand, the economic outlook and limited levels of new supply, this appears set to continue for the foreseeable future. In addition, the first half has seen a further sizeable fall in central London property yields, which are now close to historical lows. This is reflected in the 25.2% rise in our NAV in the last year (more than half of which came in the last six months).

As long-term investors in a cyclical market, we build flexibility into our plans to reflect political and economic risks. However, at the current time, we believe these risks are mitigated by the good economic and rental growth outlook and the expectation of only gradual increases in UK interest rates.

We have assembled a central London portfolio concentrated in the West End and improving locations over many years, which is full of opportunities to add value. During that time we have seen the composition of London evolve in our favour. The expansion of creative industries has challenged long-standing perceptions, with JLL (a leading surveyor) recently redefining London's Tech Belt (Clerkenwell, Shoreditch and Aldgate) as a "core" location.

There is much debate over London's affordability for new businesses as well as key workers, and this is undoubtedly an important issue for the capital city to tackle. However, with regard to commercial space, central London continues to offer accommodation over a wide range of prices. The average current central London office rent on our portfolio is only c£25 per sq ft and the estimated rental value (ERV) is c£40 per sq ft. Our continued emphasis on good design in the mid-market rental segment has contributed to our performance with estimated rental values (ERV) up 4.2% in the last six months, and a low vacancy rate which is currently 1.4%.

We invest substantially in local communities, for example, our Fitzrovia community funding programme recently provided support to ten local initiatives. Our focus on sustainability and value in the West End, Tech Belt and Crossrail areas creates a product that appeals to both investors and tenants. This appeal is demonstrated by our £68.1m of property sales so far this year, which achieved average gains after costs of 40.7% above December 2013 levels.

During the first six months, our lettings, excluding space where there was a change of use, were 8.6% above December 2013 ERV. At 30 June our contracted rent was £123.0m with an ERV of £206.0m giving a reversion of £83.0m. Of this 43% is contracted. Our financial position strengthened further when we drew down £100m of long-term finance in January. This completed the £800m financial restructuring started six months previously, which has seen our cost of debt fall since June 2013 despite being almost fully hedged against rising rates, and the average length of borrowings extended to over seven years.

The combination of strong occupier demand and our financial strength is enabling us to tap further into the latent opportunities in our portfolio. We have embarked on a major phase of property development with 626,000 sq ft under construction, including our retro-innovative White Collar Factory EC1. We have a further 975,000 sq ft of schemes with planning consent including 80 Charlotte Street which is due to start next year. We have recently submitted planning applications to develop another 163,000 sq ft in two West End schemes, which would further increase this potential.

CENTRAL LONDON MARKET OVERVIEW

CBRE, our valuers, reported that central London office rental values have risen 3.9% in the first six months of 2014. Take-up, at 6.6 million sq ft, was lower than in the second half of last year, but this reflected a lack of availability rather than a lack of demand. Overall vacancy is still well below trend at 8.7 million sq ft or 3.9% of total stock.

A number of factors have helped drive London's strong occupier demand:

- The strengthening UK economy, led by London where business confidence is high.
- A trend of recentralisation as some suburban office occupiers wish to reconnect with a more urban vibe that appeals to the new generation of creatives.
- A spread of tenant demand beyond the traditional core, as the new creative industries migrate readily to new locations.
- The significant improvement to east-west connectivity across London afforded by the opening of Crossrail in 2018.

In July 2014 CBRE published a report titled "Creative London" highlighting the strength of TMT demand which is helping drive London's rental growth, thereby stimulating new areas. It quotes data showing that these industries created 25,000 London jobs between 2008 and 2013. The same industries are expected to provide another 60,000 new jobs by 2020. However TMT is not the only sector looking to take space. CBRE reported that central London take-up in first half of 2014 from creative industries was lower than that from business services and finance, and represented only 15% of the total.

Despite the positive background, new office supply in central London remains limited, and completions are rising from a low base. Across the whole of central London there is currently 2.2 million sq ft of speculative space under construction due for completion in the second half of 2014, of which 440,000 sq ft is in the West End. At these levels, the current imbalance between supply and demand is likely to continue.

Central London property yields are now just above those of 2007, pushed down by the weight of demand from a wide range of mostly equity funded investors. UK gilt yields have fallen since December 2013 despite the Governor of the Bank of England's June warning that interest rates might rise earlier than previously expected. Investors appear reassured that any rises in interest rates will probably only be gradual and the potential risks to the office market are currently outweighed by:

- The outlook for strong medium-term rental growth.
- A continuing trend of residential conversions.
- Increased liquidity as lending sources widen.

VALUATION

Market conditions provided an ideal backdrop for our central London portfolio in the first half with property values rising, as rental values increased and valuation yields tightened.

The Group's investment portfolio was valued at £3.74bn at 30 June 2014. The underlying valuation was up 10.1% over the first half of 2014, considerably stronger than the 4.7% and 7.6% uplifts for the first and second halves of 2013, respectively. This outperformed our comparative benchmark, the IPD Capital Growth Index for central London offices at 8.7% and the IPD All Property Index of 5.6%. Our central London portfolio (97% of the total) increased by 10.3%, with the West End up 9.2% and the City Borders up 13.2%. The balance (our Scottish assets) increased by 3.1%.

We detail our five on-site developments and two phased refurbishments under Projects below. Together they were valued at £462.2m representing 12.4% of the portfolio's value. In the first six months they increased in value by 11.9% while, excluding these properties, the underlying portfolio increased by 9.8%.

As anticipated, the steady rise in rental values, which began in 2010, continued. Underlying rental values, on an EPRA basis, rose by 4.2% over the first half of 2014. This growth was stronger than the 2.6% and the 3.0% seen in the first and second halves of 2013, respectively.

Tightening yields over the first half of 2014 saw the true equivalent yield move in by 26 basis points to 5.02% and by 50 basis points over the last twelve months. On an EPRA basis the net initial yield was 3.7% at the half year. This rises to 4.4% on a "topped-up" basis, after contracted uplifts and the expiry of rent free periods. The net reversionary yield was 5.2%. Overall our central London portfolio valuation reflects a capital value of c£675 per sq ft which we do not believe is demanding given its reversionary and redevelopment potential.

At the half year our annualised net contracted rental income was £123.0m with an ERV of £206.0m. This reversion of £83.0m represented an uplift of 67%. It is derived first from contracted rental uplifts of £35.4m, including the expiry of rent free periods and future income from pre-let space at our projects on site. The pre-let income amounted to £7.8m. Secondly, vacant space represented £28.7m of additional rental income. This principally relates to our on-site developments, and in particular to our White Collar Factory campus where the ERV is £13.9m. Thirdly, the balance of the reversion is the potential £18.9m uplift from future rent reviews and lease renewals to current market rents. In the second half we have pre-let part of 1-2 Stephen Street (see below), which will have increased the contracted element of our reversion by £1.8m to £37.2m.

Overall, the Group's investment portfolio total property return was 12.2% over the half year. The IPD Total Return Index was 10.8% for central London offices and 8.5% for All UK Property.

PROJECTS

We have increased our development exposure to meet occupier demand and to tap into the next seam of latent portfolio potential. We currently have 626,000 sq ft of space under construction of which 29% is pre-let at £9.6m pa net. On-site projects include Tottenham Court Walk W1, which represents the retail element of our phased refurbishment of 1-2 Stephen Street, where we have recently started work.

Major projects pipeline

Property	Area sq ft[1]	Delivery	Comment
Projects on site			
Developments			
White Collar Factory, Old Street EC1	293,000	Q3 2016	Office-led development
40 Chancery Lane WC2	101,800	Q4 2014	Offices and retail - 96% pre-let
Turnmill, 63 Clerkenwell Road EC1	70,500	Q3 2014	Offices and retail - 83% pre-let
Queens, 96-98 Bishop's Bridge Road W2	21,400	Q4 2014	Residential and retail
73 Charlotte Street W1	15,500	Q3 2015	Residential and offices
Refurbishments			
1-2 Stephen Street W1	83,800	Q3 2014	Offices - 34% pre-let
Tottenham Court Walk W1	40,000	Q2 2015	Retail, Part 1-2 Stephen Street
	626,000		29% pre-let
Major planning consents			
80 Charlotte Street W1	380,000		Offices and residential
1 Oxford Street W1 [2]	275,000		Offices, retail and theatre
55-65 North Wharf Road W2	240,000		Offices
Wedge House, 30-40 Blackfriars Road SE1	80,000		Offices
	975,000		

[1] Areas are proposed figures
[2] Crossrail site under option

Our largest current project overlooks Old Street or "Silicon" roundabout in the heart of London's Tech Belt. The 237,000 sq ft 16-storey White Collar Factory will form part of a campus also comprising another 39,000 sq ft offices, 9,000 sq ft retail and 8,000 sq ft residential around a new public square. Some of the campus offices will be available to provide affordable space to facilitate business start-up activity. Total ERV is estimated at £13.9m pa, and future capital expenditure at £110m.

Two other major office projects at Turnmill EC1 and 40 Chancery Lane WC2 are due to be completed this year. The office space on both schemes of 155,600 sq ft has been pre-let for £8.8m pa (£7.8m net of ground rents) to Publicis Groupe. On completion we will have 16,700 sq ft of associated retail space to let with an ERV of £0.5m.

Derwent London has a small residential programme with Queens W2 (18,700 sq ft private apartments) due for completion later this year and 73 Charlotte Street W1 (11,700 sq ft private apartments) due to be completed in Q3 2015. Queens will be marketed for sale in the third quarter, and is aimed at owner-occupiers.

Publicis' move into the office space at Turnmill and 40 Chancery Lane will allow us to proceed with the regeneration of 80 Charlotte Street in 2015. This scheme will comprise 322,000 sq ft offices, 44,000 sq ft residential, of which 23% is affordable and 14,000 sq ft retail with expected further capital expenditure of c£149m. Thereafter we have consent for 55-65 North Wharf Road W2 (240,000 sq ft offices), which could start in 2016, and 1 Oxford Street W1 (275,000 sq ft mixed-use) which could start in 2018. The latter project is subject to an option agreement to acquire the site from Crossrail, which could, inter alia, allow the start date to be brought forward.

We continue to augment our portfolio's potential, and recently applied for planning permission on two projects. At 25-29 Berners Street W1 the application is to develop 105,000 sq ft of offices. This development is subject to reaching an agreement with our freeholder, whose interest includes a 6,100 sq ft building which is not part of our ownership but forms part of the site. In addition, we have applied for consent at 25 Savile Row W1, which includes our own office accommodation, for a 58,000 sq ft Mayfair residential development. The latter property was not previously included in our schemes under active appraisal. If the two applications are successful, in aggregate they will increase the potential floor area of these properties by 27%.

After a lengthy period of falling or flat construction prices, the last 12 months saw them resume a more typical upward trend, with a consensus view of 4-6% annual inflation for the next few years. We have been mitigating our future costs through fixing prices early based on final design information. Our experience and long-standing relationships within the industry have helped us in this regard. All the costs of our on-site programme (£155m still to spend) are on fixed price contracts. Therefore our risks relate to our future projects: most immediately 80 Charlotte Street W1 and 55-65 North Wharf Road W2 where we estimate aggregate future capital expenditure at £265m.

PORTFOLIO MANAGEMENT

Despite having only a limited amount of space available, we let 89,800 sq ft in the first half of the year securing £3.6m of annual rent. Excluding the impact of a change of use, we achieved overall rents 8.6% above December 2013 ERV, and open market transactions were 17.3% above December ERV. These figures exclude our largest single transaction in the first half, which was the pre-let to Make at Middlesex House W1, where we are converting a former basement car park to offices.

We show the major transactions in the table below. The table is updated for Q3 lettings to date, which total £3.2m pa on 55,100 sq ft, and were completed on average 9.1% above June 2014 and 17.5% above December 2013 ERVs. A significant proportion of our current year deals represent new rental highs for individual buildings.

Principal lettings in 2014

Property	Tenant	Area	Rent	Total annual rent	Min / fixed uplift at 1st review	Lease term	Lease break	Rent free equivalent
		sq ft	£ psf	£m	£ psf	Years	Year	Months
Q1								
Middlesex House W1	Make	12,200	37.50	0.5	42.50	15	10	9
Morelands EC1	Spark44	8,500	49.50	0.4	54.50	10	5	10.5, plus 4.5 if no break
1 Oliver`s Yard EC2	Orms	6,400	50.00	0.3	52.50	10	5	10.5, plus 4.5 if no break
Q2								
Tower House WC2	World Nuclear Association	5,700	66.00	0.4	68.50	10	-	13.5
Q3								
1-2 Stephen Street W1	Freud Communications	28,100	65.00	1.8	75.00	15	10	18, plus 6 if no break
Morelands EC1	Stink London	8,700	54.00	0.5	58.00	10	-	12

In the second half we have secured our largest letting of the year to date, pre-letting 28,100 sq ft on the lower floors at 1-2 Stephen Street W1 to Freud Communications for 15 years with a tenant's break at year ten. This represents 34% of the office space currently under refurbishment at that property. The rent is £1.8m pa rising to £2.1m pa after five years, and with an upward only rent review in year ten. The initial rent of £65 per sq ft is 6.0% above the December 2013 ERV for those floors.

We continue to have very little space available to let with the June EPRA vacancy rate at only 1.4%. Allowing for the completion of the balance of 1-2 Stephen Street this would increase to 3.5% on a proforma basis.

INVESTMENT ACTIVITY

Disposals

Since the beginning of the year we have taken advantage of the continuing strength of the investment market to dispose of certain smaller assets where we have less opportunity to add material value. Having first considered the development potential at Jaeger House W1, we decided instead to market the property without the benefit of planning. We received £30.7m or £1,235 per sq ft. Separately we sold our long-standing 25% interest in the non-core Prague Fashion Arena for £6.8m net of costs. On average these sales achieved a significant surplus over December 2013 book values, and full details were given in our first quarter Interim Management Statement.

Since the half year we have sold 186 City Road EC1 and 35 & 37 Kentish Town Road NW1 for £37.4m before costs. Refurbishment work repositioning both these relatively small properties was recently completed and we have been able to secure a substantial 49% premium over the December 2013 values, just above June 2014 values.

Property	Area sq ft	Gross proceeds £m	Gross proceeds £ psf	Net yield to purchaser %	Rent £m pa	Surplus Dec 2013 %
Jaeger House W1	24,900	30.7	1,235	2.7	0.9	32
186 City Road EC1	38,300	23.3	610	4.1	1.0	54
35 & 37 Kentish Town Road NW1	24,500	14.1	575	3.8	0.6	41
Total	**87,700**	**68.1**	**775**	**3.4**	**2.5**	**41**

Acquisitions

It has been a quiet period for acquisitions reflecting the extremely competitive market and the numerous opportunities within the existing portfolio, which means we are under no pressure to buy. However in the first half we acquired 19-23 Featherstone Street EC1 which adjoins our Monmouth House and is opposite the White Collar Factory campus. The property cost £12.3m or £447 per sq ft, and is let for up to three years at an initial rent of £0.27m pa (£10 per sq ft). Preliminary studies are in hand to determine how we can maximise the potential of these two adjoining properties.

FINANCIAL REVIEW

EPRA net asset value per share increased sharply during the first half of 2014 to 2,572p from 2,264p at 31 December 2013, a rise of 13.6%. Over the twelve months to 30 June 2014, the increase in net asset value per share was 25.2%.

Though recurring earnings have grown, the majority of the increase in net asset value was due to another strong portfolio valuation surplus. For the first half of 2014, the Group's surplus was £334.3m after deducting lease incentive adjustments of £4.0m. In addition, the sales of Jaeger House and our Prague joint venture gave rise to a profit on sale of £8.4m after tax. The equivalent figures for H1 2013 were a surplus of £175.5m and a profit on sale of £0.3m, respectively. The EPRA net asset value also takes account of a cumulative £2.4m net uplift on our trading properties, being the residential developments at Queens W2 and 73 Charlotte Street W1.

The overall property portfolio fair value increased to £3.74bn at 30 June 2014. Capital expenditure in the period was £59.9m, including £2.3m of capitalised interest, compared with £53.1m and £3.4m, respectively, in the first half of 2013. Acquisitions during the period totalled £13.6m, relating almost entirely to 19-23 Featherstone Street EC1 which was acquired for £12.3m including costs of £0.5m. Property disposal proceeds were £31.4m of which £30.7m related to Jaeger House W1.

The Prague joint venture, a legacy from the merger with London Merchant Securities plc in 2007, was disposed of for £6.8m net of costs, which included the repayment of a £1.9m shareholder loan. Costs of sale were £0.5m and there was a tax charge of £0.9m. The tax payable was covered by available tax losses.

EPRA profit before taxation for the half year increased to £32.0m, a 14.3% increase from the £28.0m reported in the first half of 2013. Gross property income rose to £69.3m from £64.0m in H1 2013, helped by a £1.4m rights of light receipt, and net property and other income increased by 10.8% to £65.9m. Net rental income increased by 4.8% from H1 2013 and by 1.3% from H2 2013 on a like-for-like basis. After stripping out the receipt of back rent from a rent review in H2 2013, the like-for-like increase on H2 2013 was 4.1%.

Administrative expenses increased to £13.1m from £11.8m in H1 2013, due mainly to fixed and variable staff costs. Net finance costs before taking account of capitalised interest were reduced by £0.7m from H1 2013, but the level of capitalised interest also fell following completion of the 1 Page Street SW1 project in 2013. The amount of interest capitalised on that scheme was higher than usual because it was acquired specifically for development. For our other projects, interest on the site value is not capitalised.

The Group's overall profit before tax, which includes fair value movements as well as the profit on disposals, was £371.4m compared with £219.8m for the first six months of 2013.

PricewaterhouseCoopers LLP were formally appointed as auditors to Derwent London plc and its subsidiaries in July 2014. At our request they have carried out an independent review of the interim results and their report is attached.

Financing, net debt and cash flow

The drawdown of the £100m 15 and 20-year US Private Placement notes from New York Life in January 2014 completed the final step in the £800m refinancing which was arranged in the second half of 2013. Available undrawn facilities totalled £364m at the end of June 2014. The property sales that completed in July 2014 will have increased our capacity by a further £37m.

In April 2014 a £65m forward-start interest rate swap with a fixed rate of 1.9975% until April 2019 became active so that, as at 30 June 2014, the Group had £283m of interest rate swaps in place. This meant that the proportion of debt that was fixed or hedged increased to 98% of the nominal value. This is higher than our normal level but will reduce as spending on our projects continues; the additional capital expenditure expected in the second half of 2014 is £77m with a further £140m in 2015. With the new loans in place, our average debt maturity has also increased and was 7.2 years at the end of June 2014. Since June

2013, the proportion of our debt that is unsecured has increased from 19% to 64% and the value of uncharged properties has grown from £727m to £2.4bn.

Net debt increased to £974.1m at 30 June 2014 from £949.2m at the end of 2013. However, the Group's overall loan-to-value ("LTV") ratio fell to 25.7% from 28.0% at the last year end and net asset gearing also fell to 35.8% following the strong asset value performance in the period.

Operational cash flow has strengthened during the first half with net cash from operating activities for the six months to June 2014 up to £32.9m from £26.4m in the equivalent period of 2013, an increase of 24.6%.

Net interest cover for the first half of 2014 also improved to 287% compared to 257% on the same basis for the first half of 2013 and 279% for the whole of 2013. Following the increased level of hedging and fixed rate notes, the overall weighted average interest rate rose slightly to 3.98% on a cash basis and 4.44% on an IFRS basis. The equivalent figures reported in our Interim Management Statement at 31 March 2014 were 3.84% and 4.29%, respectively.

Dividend

We are increasing the interim dividend again by 8.4% to 11.65p from 10.75p per share, at which level the dividend remains comfortably covered. The dividend will be paid on 23 October 2014 to shareholders on the register at 19 September 2014, with 7.3p paid as a PID under the UK REIT regime. As with previous dividends, there will be a scrip alternative.

OUTLOOK

Confidence levels in the London economy are stimulating new industries, fuelling fresh occupier demand and attracting investment, while the broader economic fragility and global uncertainties are likely to keep interest rates low. We are now bringing on the next phase of major development projects. This is part of our long-term strategy of adding value to properties in improving locations where, through a focus on good design appropriate to local needs, we are regenerating neighbourhoods such as Old Street roundabout and Fitzrovia.

We are operating in favourable market conditions and to date there are few signs of the excessive development or imprudent property lending which have normally preceded the start of a property downturn. In our view the current position in the cycle points us firmly towards further growth. However, we recognise that there are significant political and global risks, such as next year's General Election, and a number of international trouble spots. Our business model retains considerable flexibility which enables us to alter course if the economy slows or occupational demand weakens.

Derwent London is set to have another good year in 2014 based on:

- An excellent first half performance with 12.3% earnings growth and 13.6% NAV growth.
- A positive market outlook with our expectations of our portfolio average ERV growth for the year raised to 6-8% from 5-7% in February 2014, and yields expected to remain firm.
- Our portfolio's West End focus and proximity to Crossrail stations or London's Tech Belt.
- Reversionary potential of £83.0m pa, of which 43% is contracted growth.
- Significant development activity with 626,000 sq ft under construction - 29% pre-let.
- Substantial development potential beyond the on-site programme.
- A strong financial base with almost £400m of undrawn committed facilities, and an LTV of only 25.7%.

Our confidence in our market, the quality of our brand and our strong financial position is reflected in the Group's most substantial development programme to date.

Robert A. Rayne	John D. Burns
Chairman	Chief Executive Officer

14 August 2014

Statement of Directors' responsibilities

The Directors' confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim financial reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. The interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- Material related-party transactions in the first six months of the financial year and any material changes in the related-party transactions described in the last Annual Report.

The Directors are listed in the Derwent London plc Annual Report of 31 December 2013 and a list of the current Directors is maintained on the Derwent London website: www.derwentlondon.com. The maintenance and integrity of the Derwent London website is the responsibility of the Directors.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

John D. Burns	Damian M.A. Wisniewski
Chief Executive Officer	Finance Director

14 August 2014

GROUP CONDENSED INCOME STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.2014 £m**	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Gross property and other income	5	**83.2**	77.8	160.5
Net property and other income	5	**65.9**	59.5	124.3
Administrative expenses		**(13.1)**	(11.8)	(26.4)
Movement in valuation of cash-settled share options		**(0.1)**	(0.2)	(0.3)
Total administrative expenses		**(13.2)**	(12.0)	(26.7)
Revaluation surplus	12	**330.8**	175.3	335.6
Profit on disposal of investment property	6	**7.3**	0.3	53.5
Profit on disposal of investment in joint venture	6	**2.0**	-	-
Profit from operations		**392.8**	223.1	486.7
Finance income	7	**-**	-	0.2
Finance costs		**(21.1)**	(20.7)	(41.4)
Loan arrangement costs written off		**-**	-	(3.2)
Total finance costs	7	**(21.1)**	(20.7)	(44.6)
Movement in fair value of derivative financial instruments		**-**	17.0	38.5
Financial derivative termination costs	8	**(0.8)**	(0.3)	(13.7)
Share of results of joint ventures	9	**0.5**	0.7	0.8
Profit before tax		**371.4**	219.8	467.9
Tax charge	10	**(2.3)**	(1.2)	(2.4)
Profit for the period		**369.1**	218.6	465.5
Attributable to:				
- Equity shareholders		**365.0**	214.7	456.6
- Minority interest		**4.1**	3.9	8.9
		369.1	218.6	465.5
Earnings per share	11	**355.84p**	210.22p	446.40p
Diluted earnings per share	11	**320.77p**	197.31p	412.72p

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	**Half year to 30.06.2014 £m**	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Profit for the period		**369.1**	218.6	465.5
Actuarial (losses)/gains on defined benefit pension scheme		**(0.3)**	0.4	-
Revaluation surplus of owner-occupied property	12	**3.5**	0.2	1.9
Deferred tax on revaluation surplus	10	**(0.5)**	-	(0.1)
Other comprehensive income that will not be reclassified to profit or loss		**2.7**	0.6	1.8
Total comprehensive income relating to the period		**371.8**	219.2	467.3
Attributable to:				
- Equity shareholders		**367.7**	215.3	458.4
- Minority interest		**4.1**	3.9	8.9
		371.8	219.2	467.3

GROUP CONDENSED BALANCE SHEET (UNAUDITED)

	Note	**30.06.2014 £m**	30.06.2013 £m	31.12.2013 £m
Non-current assets				
Investment property	12	**3,581.4**	2,888.5	3,242.9
Property, plant and equipment	13	**25.4**	20.5	22.2
Investments		**5.5**	10.5	5.1
Pension scheme surplus		**0.5**	0.5	0.8
Other receivables	14	**76.5**	63.8	72.1
		3,689.3	2,983.8	3,343.1
Current assets				
Trading property	12	**29.3**	11.2	22.6
Trade and other receivables	15	**51.7**	55.0	53.5
Cash and cash equivalents	23	**8.7**	5.5	12.5
		89.7	71.7	88.6
Non-current assets held for sale	16	**35.5**	130.2	4.8
Total assets		**3,814.5**	3,185.7	3,436.5
Current liabilities				
Bank overdraft and loans	18	**-**	124.9	-
Trade and other payables	17	**91.1**	85.4	83.6
Corporation tax liability		**0.2**	1.9	1.4
Provisions		**1.8**	1.4	1.7
		93.1	213.6	86.7
Non-current liabilities				
Borrowings	18	**982.8**	816.3	961.7
Derivative financial instruments	18	**15.9**	37.3	15.9
Provisions		**0.2**	0.2	0.7
Deferred tax	19	**3.4**	0.1	1.0
		1,002.3	853.9	979.3
Total liabilities		**1,095.4**	1,067.5	1,066.0
Total net assets		**2,719.1**	2,118.2	2,370.5
Equity				
Share capital		**5.1**	5.0	5.0
Share premium		**172.6**	169.1	170.4
Other reserves		**949.7**	933.3	948.6
Retained earnings		**1,521.1**	949.3	1,180.0
Equity shareholders' funds		**2,648.5**	2,056.7	2,304.0
Minority interest		**70.6**	61.5	66.5
Total equity		**2,719.1**	2,118.2	2,370.5

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2014	5.0	170.4	948.6	1,180.0	2,304.0	66.5	2,370.5
Profit for the period	-	-	-	365.0	365.0	4.1	369.1
Other comprehensive income	-	-	3.0	(0.3)	2.7	-	2.7
Share-based payments	-	1.1	(1.8)	2.8	2.1	-	2.1
Dividends paid	-	-	-	(25.3)	(25.3)	-	(25.3)
Scrip dividends	-	1.1	-	(1.1)	-	-	-
Adjustment for roundings	0.1	-	(0.1)	-	-	-	-
At 30 June 2014	**5.1**	**172.6**	**949.7**	**1,521.1**	**2,648.5**	**70.6**	**2,719.1**
At 1 January 2013	5.0	165.3	934.0	756.1	1,860.4	57.6	1,918.0
Profit for the period	-	-	-	214.7	214.7	3.9	218.6
Other comprehensive income	-	-	0.2	0.4	0.6	-	0.6
Share-based payments	-	0.3	(0.9)	2.4	1.8	-	1.8
Dividends paid	-	-	-	(20.8)	(20.8)	-	(20.8)
Scrip dividends	-	3.5	-	(3.5)	-	-	-
At 30 June 2013	5.0	169.1	933.3	949.3	2,056.7	61.5	2,118.2
At 1 January 2013	5.0	165.3	934.0	756.1	1,860.4	57.6	1,918.0
Profit for the year	-	-	-	456.6	456.6	8.9	465.5
Other comprehensive income	-	-	1.8	-	1.8	-	1.8
Share-based payments	-	0.4	0.5	2.5	3.4	-	3.4
Issue of convertible bonds	-	-	12.3	-	12.3	-	12.3
Dividends paid	-	-	-	(30.5)	(30.5)	-	(30.5)
Scrip dividends	-	4.7	-	(4.7)	-	-	-
At 31 December 2013	5.0	170.4	948.6	1,180.0	2,304.0	66.5	2,370.5

GROUP CONDENSED CASH FLOW STATEMENT (UNAUDITED)

	Note	**Half year to 30.06.2014 £m**	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Operating activities				
Property income		**67.3**	62.0	123.3
Property expenses		**(4.2)**	(5.5)	(9.1)
Cash paid to and on behalf of employees		**(11.6)**	(10.6)	(19.0)
Other administrative expenses		**(2.7)**	(2.7)	(4.9)
Interest received		**-**	-	0.2
Interest paid	7	**(14.4)**	(16.3)	(32.3)
Other finance costs		**(1.4)**	(1.9)	(3.4)
Other income		**1.4**	1.7	2.8
Distributions received from joint ventures		**0.1**	0.4	1.2
Tax paid in respect of operating activities		**(1.6)**	(0.7)	(1.3)
Net cash from operating activities		**32.9**	26.4	57.5
Investing activities				
Acquisition of investment properties		**(14.3)**	(29.7)	(130.1)
Capital expenditure on properties	7	**(55.5)**	(51.8)	(108.4)
Disposal of investment properties		**30.9**	17.4	149.7
Disposal of investment in joint venture		**4.9**	-	-
Repayment of loan by joint venture on disposal		**1.9**	-	-
Purchase of property, plant and equipment		**(0.1)**	(0.2)	(0.4)
Advances to minority interest holder		**-**	(1.5)	(2.5)
REIT conversion charge		**-**	-	(0.6)
Net cash used in investing activities		**(32.2)**	(65.8)	(92.3)
Financing activities				
Net proceeds of bond issue		**-**	-	146.2
Repayment of revolving bank loan		**-**	-	(274.5)
Drawdown of new revolving bank loan		**-**	-	280.6
Net movement in revolving bank loans		**(81.0)**	60.0	-
Repayment of non-revolving bank loans		**-**	-	(65.0)
Drawdown of private placement notes		**99.0**	-	-
Financial derivative termination costs		**(0.8)**	(0.3)	(13.7)
Net proceeds of share issues		**1.1**	0.3	0.4
Dividends paid	20	**(22.8)**	(19.5)	(31.1)
Net cash (used in)/from financing activities		**(4.5)**	40.5	42.9
(Decrease)/increase in cash and cash equivalents in the period		**(3.8)**	1.1	8.1
Cash and cash equivalents at the beginning of the period		**12.5**	4.4	4.4
Cash and cash equivalents at the end of the period	23	**8.7**	5.5	12.5

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information for the half year to 30 June 2014 was not subject to an audit but has, for the first time, been subject to a review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board. The financial information for the half year to 30 June 2013 was not subject to either an audit or a review.

The comparative financial information presented herein for the year to 31 December 2013 does not constitute full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's annual report and accounts for the year to 31 December 2013 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information in these condensed financial statements is that of the holding company and all of its subsidiaries (the "Group") together with the Group's share of its joint ventures. It has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting and should be read in conjunction with the annual report and accounts for the year to 31 December 2013 which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Going concern
Under Provision C.1.3 of the UK Corporate Governance Code, the Board needs to report whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

- The Group's latest rolling forecast for the next 18 months, in particular the cash flows, borrowings and undrawn facilities. Sensitivity analysis is included within these forecasts.
- The headroom under the Group's financial covenants.
- The risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Group's risks and risk management processes are set out in note 25.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to adopt the going concern basis in preparing these consolidated financial statements.

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied by the Group in its financial statements for the year to 31 December 2013, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the period as shown below.

New standards adopted during the period
The following standards, amendments and interpretations endorsed by the EU are effective for the Group's half year to 30 June 2014, and had no material impact on the financial statements:

IAS 27 (revised) – Separate Financial Statements;
IAS 28 (revised) – Investments in Associates and Joint Ventures;
IAS 32 (amended) – Offsetting Financial Assets and Financial Liabilities;
IAS 36 (amended) – Recoverable Amounts Disclosures for Non-Financial Assets;
IAS 39 (amended) – Novation of Derivatives and Continuation of Hedge Accounting;
IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements; and
IFRS 12 Disclosure of Interests in Other Entities.

Standards in issue but not yet effective
The following standards, amendments and interpretations were in issue at the date of approval of the condensed consolidated financial statements but were not yet effective for the current accounting period and have not been adopted early. The directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

IFRS 9 Financial Instruments;
IAS 19 (amended) – Defined Benefit Plans - Employee Contributions;
IFRS 11 (amended) – Acquisition of interests in joint operations;
IAS 16 (amended) – Clarification of acceptable methods of depreciation and amortisation;

IAS 38 (amended) – Clarification of acceptable methods of depreciation and amortisation;
IFRS 14 – Regulatory deferral accounts;
IFRS 15 – Revenue from contracts with customers;
IFRIC 21 – Levies;
Annual Improvements to IFRSs (2010 - 2012 Cycle); and
Annual Improvements to IFRSs (2011 - 2013 Cycle).

3. Significant judgments, key assumptions and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements. These are the same policies identified at the previous year end and a full discussion of these policies is included in the 2013 financial statements.

- Trade receivables;
- Property portfolio valuation;
- Outstanding rent reviews;
- Compliance with the real estate investment trust (REIT) taxation regime; and
- Contingent consideration.

4. Segmental information

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

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 11. Additionally, information is provided to the Executive Committee showing the gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner occupied property, assets held for sale and trading property and comprises 93% office buildings* by value (30 June 2013: 94%; 31 December 2013: 93%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 7% (30 June 2013: 6%; 31 December 2013: 7%) represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

No tenant accounted for more than 10% of gross property income and no individual property accounted for more than 10% of the value of the property portfolio in either the half year to 30 June 2014, the half year to 30 June 2013, or the year to 31 December 2013.

All of the Group's properties are based in the UK. At 30 June 2013 and 31 December 2013, the Group also had a joint venture investment in Prague which represented 0.1% of the Group's assets and is excluded from this analysis. This investment was sold in April 2014. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the business and finance review. The majority of the Group's properties are located in London (West End central, West End borders and City borders), with the remainder in Scotland (Provincial).

* Some office buildings have an ancillary element such as retail or residential.

Gross property income

	Office buildings £m	Other £m	**Total £m**
Half year to 30 June 2014			
West End central	39.0	1.8	**40.8**
West End borders	6.7	0.1	**6.8**
City borders	19.2	0.1	**19.3**
Provincial	-	2.4	**2.4**
	64.9	**4.4**	**69.3**
Half year to 30 June 2013			
West End central	38.7	1.2	39.9
West End borders	6.7	0.1	6.8
City borders	14.7	0.1	14.8
Provincial	-	2.5	2.5
	60.1	3.9	64.0
Year to 31 December 2013			
West End central	77.0	4.4	81.4
West End borders	13.5	0.2	13.7
City borders	31.4	0.2	31.6
Provincial	-	4.9	4.9
	121.9	9.7	131.6

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

Property portfolio

	Carrying value			Fair value		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	**Total £m**
30 June 2014						
West End central	2,083.4	147.3	**2,230.7**	2,114.5	151.3	**2,265.8**
West End borders	299.4	15.5	**314.9**	319.8	15.5	**335.3**
City borders	1,025.4	5.2	**1,030.6**	1,038.4	5.2	**1,043.6**
Provincial	-	93.1	**93.1**	-	97.4	**97.4**
	3,408.2	**261.1**	**3,669.3**	**3,472.7**	**269.4**	**3,742.1**
30 June 2013						
West End central	1,919.2	90.4	2,009.6	1,944.0	90.6	2,034.6
West End borders	254.2	10.5	264.7	270.6	10.5	281.1
City borders	680.8	4.5	685.3	690.5	4.5	695.0
Provincial	-	88.4	88.4	-	93.0	93.0
	2,854.2	193.8	3,048.0	2,905.1	198.6	3,103.7
31 December 2013						
West End central	1,923.9	120.7	2,044.6	1,953.0	123.5	2,076.5
West End borders	270.3	13.1	283.4	289.9	13.1	303.0
City borders	863.4	4.6	868.0	875.3	4.6	879.9
Provincial	-	89.2	89.2	-	93.7	93.7
	3,057.6	227.6	3,285.2	3,118.2	234.9	3,353.1

A reconciliation between the fair value and carrying value of the portfolio is set out in note 12.

5. Property and other income

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Gross rental income	**67.9**	63.9	130.9
Surrender premiums	**-**	0.2	1.6
Write-off of associated rents previously recognised in advance	**-**	(0.1)	(0.9)
	-	0.1	0.7
Other property income	**1.4**	-	-
Gross property income	**69.3**	64.0	131.6
Service charge income	**12.8**	12.7	26.9
Other income	**1.1**	1.1	2.0
Gross property and other income	**83.2**	77.8	160.5
Gross rental income	**67.9**	63.9	130.9
Ground rent	**(0.2)**	(0.2)	(0.4)
Service charge income	**12.8**	12.7	26.9
Service charge expenses	**(13.5)**	(13.9)	(28.8)
	(0.7)	(1.2)	(1.9)
Other property costs	**(3.3)**	(4.0)	(6.9)
Net rental income	**63.7**	58.5	121.7
Other property income	**1.4**	-	-
Other income	**1.1**	1.1	2.0
Net surrender premiums received	**-**	0.1	0.7
Reverse surrender premiums	**(0.3)**	(0.3)	(0.2)
Dilapidation receipts	**-**	0.1	0.1
Net property and other income	**65.9**	59.5	124.3

Included within rental income is £0.9m (half year to 30 June 2013: £1.2m; year to 31 December 2013: £2.3m) of income which was derived from a lease of one of its buildings where the Group entered into an arrangement to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £3.8m (half year to 30 June 2013: £2.1m; year to 31 December 2013: £5.6m) relating to rents recognised in advance of the cash receipts.

Other property income relates to a rights of light settlement received during the period, while other income relates to fees and commissions earned in relation to the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of services.

6. Profit on disposal

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Investment property			
Gross disposal proceeds	**31.4**	17.8	151.3
Costs of disposal	**(0.5)**	(0.4)	(1.5)
Net disposal proceeds	**30.9**	17.4	149.8
Carrying value	**(23.6)**	(17.1)	(96.4)
Adjustment for rents recognised in advance	-	-	(0.7)
Movement in grossing up of headlease liability	-	-	0.8
Profit on disposal of investment property	**7.3**	0.3	53.5
Investment in joint venture			
Gross disposal proceeds	**5.4**	-	-
Costs of disposal	**(0.5)**	-	-
Net disposal proceeds	**4.9**	-	-
Carrying value	**(2.9)**	-	-
Profit on disposal of investment in joint venture	**2.0**	-	-
Total profit on disposal	**9.3**	0.3	53.5

In April 2014, the Group disposed of its 25% interest in the joint venture Euro Mall Sterboholy a.s. in Prague for £5.4m before costs of £0.5m. Included within the tax charge is £0.9m relating to this disposal, resulting in a profit on disposal net of tax of £1.1m. At the same time, a loan of £1.9m to the joint venture was repaid. The investment was held within non-current assets held for sale at 31 December 2013.

Included in the 2013 profit on disposal figure was £53.0m relating to the Group's sale of its 50% interest in 1-5 Grosvenor Place SW1 in July 2013. The property had a carrying value of £78.4m and was sold for £132.5m before costs of £1.1m. The price achieved reflected the special nature of the purchaser combined with the unique location of this development site.

7. Finance income and costs

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Finance income			
Other	**-**	-	0.2
	-	-	0.2
Finance costs			
Bank loans and overdraft	**6.1**	10.6	17.4
Non-utilisation fees	**1.2**	1.3	2.8
Secured loan	**1.6**	1.6	3.3
Unsecured private placement notes	**2.2**	-	-
Secured bonds	**5.7**	5.7	11.4
Unsecured convertible bonds	**5.2**	3.3	8.2
Amortisation of issue and arrangement costs	**1.7**	1.5	3.2
Amortisation of the fair value of the secured bonds	**(0.5)**	(0.4)	(0.9)
Finance lease costs	**0.2**	0.3	0.5
Other	**-**	0.2	0.3
Gross interest costs	**23.4**	24.1	46.2
Less: interest capitalised	**(2.3)**	(3.4)	(4.8)
Finance costs	**21.1**	20.7	41.4
Loan arrangement costs written off	**-**	-	3.2
Total finance costs	**21.1**	20.7	44.6

As a result of the refinancing of the Group's bank facilities in September 2013, £3.2m of unamortised arrangement costs associated with the previous facilities repaid were written off to the Group income statement in 2013. In accordance with EPRA guidance, these costs were excluded from EPRA profit and earnings (see note 11).

Finance costs of £2.3m (half year to 30 June 2013: £3.4m; year to 31 December 2013: £4.8m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowing during each quarter. Total finance costs paid to 30 June 2014 were £16.7m (half year to 30 June 2013: £19.7m; year to 31 December 2013: £37.1m) of which £2.3m (half year to 30 June 2013: £3.4m; year to 31 December 2013: £4.8m) was included in capital expenditure on properties in the Group cash flow statement under investing activities.

8. Financial derivative termination costs

The Group incurred costs of £0.8m in the half year to 30 June 2014 deferring the start dates of two 'forward-start' interest rate swaps.

In the year to 31 December 2013, the Group terminated, deferred and re-couponed interest rate swaps with a principal amount of £190m at a cost of £12.9m (half year to 30 June 2013: £nil), and incurred costs of £0.8m (half year to 30 June 2013: £0.3m) deferring to April 2014 the start date of an interest rate swap with a principal amount of £65m.

9. Share of results of joint ventures

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Revaluation surplus/(deficit)	**0.2**	(0.3)	(0.3)
Other profit from operations after tax	**0.3**	1.0	1.1
	0.5	0.7	0.8

10. Tax charge

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Corporation tax			
UK corporation tax and income tax in respect of profit for the period	**0.4**	0.3	0.8
Other adjustments in respect of prior years' tax	**-**	0.3	0.2
Corporation tax charge	**0.4**	0.6	1.0
Deferred tax			
Origination and reversal of temporary differences	**1.9**	0.6	1.3
Adjustment for changes in estimates	**-**	-	0.1
Deferred tax charge	**1.9**	0.6	1.4
Tax charge	**2.3**	1.2	2.4

In addition to the tax charge of £2.3m (half year to 30 June 2013: £1.2m; year to 31 December 2013: £2.4m) that passed through the Group income statement, a deferred tax charge of £0.5m (half year to 30 June 2013: £nil; year to 31 December 2013: £0.1m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for the half year to 30 June 2014 is lower (half year to 30 June 2013: lower; year to 31 December 2013: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Profit before tax	**371.4**	219.8	467.9
Expected tax charge based on the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	**79.9**	51.1	108.8
Difference between tax and accounting profit on disposals	**(2.3)**	(0.2)	(15.0)
REIT exempt income	**(5.6)**	(3.5)	(11.0)
Lease incentives and costs transition to FRS 101	**2.9**	-	-
Expenses and fair value adjustments not allowable for tax purposes	**(1.4)**	(5.5)	(1.8)
Revaluation surplus attributable to REIT properties	**(70.9)**	(41.2)	(78.0)
Capital allowances	**(1.7)**	(1.5)	(3.9)
Origination and reversal of temporary differences	**1.9**	0.6	1.3
Other differences	**(0.5)**	1.1	1.8
Tax charge on current period’s profit	**2.3**	0.9	2.2
Adjustments in respect of prior years’ tax	**-**	0.3	0.2
	2.3	1.2	2.4

11. EPRA performance measures

Number of shares

	Earnings per share measures			Net asset value per share measures		
	Weighted average for the period ended			At period ended		
	30.06.2014 '000	30.06.2013 '000	31.12.2013 '000	**30.06.2014 '000**	30.06.2013 '000	31.12.2013 '000
For use in basic measures	**102,573**	102,129	102,284	**102,720**	102,413	102,478
Dilutive effect of convertible bonds	**12,373**	7,876	9,848	**7,876**	-	7,876
Dilutive effect of share-based payments	**463**	481	486	**462**	488	500
For use in measures for which bond conversion is dilutive	**115,409**	110,486	112,618	**111,058**	102,901	110,854
Less dilutive effect of convertible bonds	**(12,373)**	(7,876)	(9,848)	**(7,876)**	-	(7,876)
For use in other diluted measures	**103,036**	102,610	102,770	**103,182**	102,901	102,978

The £175m unsecured convertible bonds 2016 ('2016 bonds') and the £150m unsecured convertible bonds 2019 ('2019 bonds') have initial conversion prices set at £22.22 and £33.35, respectively. In accordance with IAS 33 Earnings per Share, the effect of the conversion of the bonds is required to be recognised if they are dilutive, and not recognised if they are anti-dilutive.

For the half years to 30 June 2014 and 30 June 2013, and the year to 31 December 2013, the shares attributable to the conversion of the 2016 bonds were dilutive for unadjusted earnings per share but anti-dilutive for EPRA earnings per share. They were dilutive for net asset value (NAV) and EPRA NAV per share at 30 June 2014 and 31 December 2013 but anti-dilutive for all NAV per share measures at 30 June 2013.

For the half year to 30 June 2014 and the year to 31 December 2013, the shares attributable to the conversion of the 2019 bonds, issued in July 2013, were dilutive for unadjusted earnings per share but anti-dilutive for EPRA earnings per share and all NAV per share measures.

For consistency purposes, the Group has adopted the same approach for dilution due to convertible bonds for the calculation of EPRA triple NAV per share as EPRA NAV per share.

The following tables set out reconciliations between the IFRS and EPRA figures for profit before tax, profit for the period and earnings per share. The adjustments made between the figures are as follows:

A – Disposal of investment property and investment in joint venture and associated tax and minority interest
B – Revaluation surplus/(deficit) on investment property and in joint ventures and associated deferred tax and minority interest
C – Fair value movement and termination costs relating to derivative financial instruments and associated minority interest
D – Loan arrangement costs, movement in the valuation of cash-settled options and the dilutive effect of convertible bonds

Profit before tax and earnings per share

	IFRS £m	Adjustments A £m	B £m	C £m	D £m	EPRA £m
Half year to 30 June 2014						
Net property and other income	65.9	-	-	-	-	65.9
Total administrative expenses	(13.2)	-	-	-	0.1	(13.1)
Revaluation surplus	330.8	-	(330.8)	-	-	-
Profit on disposal of investment property	7.3	(7.3)	-	-	-	-
Profit on disposal of investment	2.0	(2.0)	-	-	-	-
Net finance costs	(21.1)	-	-	-	-	(21.1)
Financial derivative termination costs	(0.8)	-	-	0.8	-	-
Share of results of joint ventures	0.5	-	(0.2)	-	-	0.3
Profit before tax	**371.4**	**(9.3)**	**(331.0)**	**0.8**	**0.1**	**32.0**
Tax charge	(2.3)	0.9	0.3	-	-	(1.1)
Profit for the period	369.1	(8.4)	(330.7)	0.8	0.1	30.9
Minority interest	(4.1)	-	3.1	-	-	(1.0)
Profit for the period attributable to equity shareholders	365.0	(8.4)	(327.6)	0.8	0.1	29.9
Interest effect of dilutive convertible bonds	5.2	-	-	-	(5.2)	-
Diluted earnings	370.2	(8.4)	(327.6)	0.8	(5.1)	29.9
Earnings per share	**355.84p**					**29.15p**
Diluted earnings per share	320.77p					29.02p

	IFRS £m	A £m	B £m	C £m	D £m	EPRA £m
Half year to 30 June 2013						
Net property and other income	59.5	-	-	-	-	59.5
Total administrative expenses	(12.0)	-	-	-	0.2	(11.8)
Revaluation surplus	175.3	-	(175.3)	-	-	-
Profit on disposal of investment property	0.3	(0.3)	-	-	-	-
Net finance costs	(20.7)	-	-	-	-	(20.7)
Movement in fair value of derivative financial instruments	17.0	-	-	(17.0)	-	-
Financial derivative termination costs	(0.3)	-	-	0.3	-	-
Share of results of joint ventures	0.7	-	0.3	-	-	1.0
Profit before tax	219.8	(0.3)	(175.0)	(16.7)	0.2	28.0
Tax charge	(1.2)	-	0.5	-	-	(0.7)
Profit for the period	218.6	(0.3)	(174.5)	(16.7)	0.2	27.3
Minority interest	(3.9)	-	2.5	0.6	-	(0.8)
Profit for the period attributable to equity shareholders	214.7	(0.3)	(172.0)	(16.1)	0.2	26.5
Interest effect of dilutive convertible bonds	3.3	-	-	-	(3.3)	-
Diluted earnings	218.0	(0.3)	(172.0)	(16.1)	(3.1)	26.5
Earnings per share	210.22p					25.95p
Diluted earnings per share	197.31p					25.83p

	IFRS £m	Adjustments A £m	B £m	C £m	D £m	EPRA £m
Year to 31 December 2013						
Net property and other income	124.3	-	-	-	-	124.3
Total administrative expenses	(26.7)	-	-	-	0.3	(26.4)
Revaluation surplus	335.6	-	(335.6)	-	-	-
Profit on disposal of investment property	53.5	(53.5)	-	-	-	-
Net finance costs	(44.4)	-	-	-	3.2	(41.2)
Movement in fair value of derivative financial instruments	38.5	-	-	(38.5)	-	-
Financial derivative termination costs	(13.7)	-	-	13.7	-	-
Share of results of joint ventures	0.8	-	0.3	-	-	1.1
Profit before tax	467.9	(53.5)	(335.3)	(24.8)	3.5	57.8
Tax charge	(2.4)	-	1.3	-	-	(1.1)
Profit for the period	465.5	(53.5)	(334.0)	(24.8)	3.5	56.7
Minority interest	(8.9)	0.1	6.2	1.0	-	(1.6)
Profit for the period attributable to equity shareholders	456.6	(53.4)	(327.8)	(23.8)	3.5	55.1
Interest effect of dilutive convertible bonds	8.2	-	-	-	(8.2)	-
Diluted earnings	464.8	(53.4)	(327.8)	(23.8)	(4.7)	55.1
Earnings per share	446.40p					53.87p
Diluted earnings per share	412.72p					53.61p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 30 June 2014			
Net assets attributable to equity shareholders - diluted	2,817.6		2,537
Remove conversion of 2.75% unsecured convertible bonds 2016	(169.1)		
Net assets attributable to equity shareholders - undiluted	2,648.5	2,578	
Adjustment for:			
Revaluation of trading property	2.4		
Deferred tax on revaluation surplus	6.3		
Fair value of derivative financial instruments	15.9		
Fair value adjustment to secured bonds	16.5		
Minority interest in respect of the above	(2.2)		
EPRA net asset value - undiluted	2,687.4	2,616	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	169.1		
EPRA net asset value - diluted	**2,856.5**		**2,572**
Adjustment for:			
Deferred tax on revaluation surplus	(6.3)		
Fair value of derivative financial instruments	(15.9)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(5.9)		
Mark-to-market of secured bonds	(33.3)		
Mark-to-market of fixed rate secured loan	6.0		
Mark-to-market of fixed rate unsecured private placement notes	(0.4)		
Unamortised issue and arrangement costs	(12.3)		
Minority interest in respect of the above	2.2		
EPRA triple net asset value - diluted	**2,790.6**		**2,513**
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(169.1)		
Unamortised issue and arrangement costs	(1.8)		
Mark-to-market of bonds	(41.7)		
EPRA triple net asset value - undiluted	2,578.0	2,510	

	£m	Undiluted p	Diluted p
At 30 June 2013			
Net assets attributable to equity shareholders	2,056.7	2,008	1,999
Adjustment for:			
Deferred tax on revaluation surplus	4.6		
Fair value of derivative financial instruments	37.3		
Fair value adjustment to secured bonds	17.4		
Minority interest in respect of the above	(2.4)		
EPRA net asset value	2,113.6	2,064	2,054
Adjustment for:			
Deferred tax on revaluation surplus	(4.6)		
Fair value of derivative financial instruments	(37.3)		
Mark-to-market of unsecured convertible bonds	(30.2)		
Mark-to-market of secured bonds	(27.7)		
Mark-to-market of fixed rate secured loan	5.6		
Unamortised issue and arrangement costs *	(9.7)		
Minority interest in respect of the above	2.4		
EPRA triple net asset value	2,012.1	1,965	1,955

	£m	Undiluted p	Diluted p
At 31 December 2013			
Net assets attributable to equity shareholders - diluted	2,471.7		2,230
Remove conversion of 2.75% unsecured convertible bonds 2016	(167.7)		
Net assets attributable to equity shareholders - undiluted	2,304.0	2,248	
Adjustment for:			
Revaluation of trading property	2.1		
Deferred tax on revaluation surplus	5.5		
Fair value of derivative financial instruments	15.9		
Fair value adjustment to secured bonds	16.9		
Minority interest in respect of the above	(2.2)		
EPRA net asset value - undiluted	2,342.2	2,286	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	167.7		
EPRA net asset value - diluted	2,509.9		2,264
Adjustment for:			
Deferred tax on revaluation surplus	(5.5)		
Fair value of derivative financial instruments	(15.9)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	0.1		
Mark-to-market of secured bonds	(24.0)		
Mark-to-market of fixed rate secured loan	8.7		
Unamortised issue and arrangement costs	(12.3)		
Minority interest in respect of the above	2.2		
EPRA triple net asset value - diluted	2,463.2		2,222
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(167.7)		
Unamortised issue and arrangement costs	(2.3)		
Mark-to-market of bonds	(34.5)		
EPRA triple net asset value - undiluted	2,258.7	2,204	

* Following a review of the components of EPRA triple net asset value at the 2013 year end, the unamortised issue and arrangement costs were excluded from this figure. Accordingly, the 30 June 2013 figures have been amended to provide a comparative basis.

Cost ratios

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Administrative expenses	**13.1**	11.8	26.4
Other property costs	**3.3**	4.0	6.9
Dilapidation receipts	**-**	(0.1)	(0.1)
Net service charge costs	**0.7**	1.2	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.1)**	(0.2)	(0.3)
Management fees received less estimated profit element	**(1.1)**	(1.1)	(2.0)
Share of joint ventures' expenses	**0.1**	0.2	0.4
EPRA costs (including direct vacancy costs) (A)	**16.0**	15.8	33.2
Direct vacancy costs	**(1.2)**	(2.3)	(3.4)
EPRA costs (excluding direct vacancy costs) (B)	**14.8**	13.5	29.8
Gross rental income	**67.9**	63.9	130.9
Ground rent	**(0.2)**	(0.2)	(0.4)
Service charge components of rental income	**(0.1)**	(0.2)	(0.3)
Share of joint ventures' rental income less ground rent	**0.6**	1.2	1.9
Adjusted gross rental income (C)	**68.2**	64.7	132.1
EPRA cost ratio (including direct vacancy costs) (A/C)	**23.5%**	24.4%	25.1%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**21.7%**	20.9%	22.6%

In addition to the two EPRA cost ratios, the Group has calculated an additional cost ratio based on its property portfolio fair value to recognise the 'total return' nature of the Group's activities.

Property portfolio at fair value (D)	**3,742.1**	3,103.7	3,353.1
Portfolio cost ratio (A/D) - annualised	**0.9%**	1.0%	1.0%

The Group has not capitalised any overhead or operating expenses in either 2014 or 2013.

12. Property portfolio

Carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 1 January 2014	2,773.2	469.7	3,242.9	19.7	-	22.6	3,285.2
Acquisitions	13.6	-	13.6	-	-	-	13.6
Capital expenditure	38.6	12.4	51.0	-	-	6.6	57.6
Interest capitalisation	1.6	0.6	2.2	-	-	0.1	2.3
Additions	53.8	13.0	66.8	-	-	6.7	73.5
Disposals	(23.6)	-	(23.6)	-	-	-	(23.6)
Depreciation	-	-	-	(0.1)	-	-	(0.1)
Transfers	(35.5)	-	(35.5)	-	35.5	-	-
Revaluation	298.7	32.1	330.8	3.5	-	-	334.3
At 30 June 2014	**3,066.6**	**514.8**	**3,581.4**	**23.1**	**35.5**	**29.3**	**3,669.3**
At 1 January 2013	2,296.6	476.0	2,772.6	17.9	16.5	-	2,807.0
Acquisitions	29.6	-	29.6	-	-	-	29.6
Capital expenditure	41.5	7.5	49.0	-	-	0.7	49.7
Interest capitalisation	2.9	0.5	3.4	-	-	-	3.4
Additions	74.0	8.0	82.0	-	-	0.7	82.7
Disposals	(0.6)	-	(0.6)	-	(16.5)	-	(17.1)
Transfers	(10.5)	(130.2)	(140.7)	-	130.2	10.5	-
Revaluation	97.1	78.2	175.3	0.2	-	-	175.5
Movement in grossing up of headlease liabilities	-	(0.1)	(0.1)	-	-	-	(0.1)
At 30 June 2013	2,456.6	431.9	2,888.5	18.1	130.2	11.2	3,048.0
At 1 January 2013	2,296.6	476.0	2,772.6	17.9	16.5	-	2,807.0
Acquisitions	129.8	(0.5)	129.3	-	-	-	129.3
Capital expenditure	81.0	18.0	99.0	-	-	4.0	103.0
Interest capitalisation	3.8	0.9	4.7	-	-	0.1	4.8
Additions	214.6	18.4	233.0	-	-	4.1	237.1
Disposals	(0.6)	(79.3)	(79.9)	-	(16.5)	-	(96.4)
Depreciation	-	-	-	(0.1)	-	-	(0.1)
Transfers	(18.5)	-	(18.5)	-	-	18.5	-
Revaluation	281.1	54.5	335.6	1.9	-	-	337.5
Movement in grossing up of headlease liabilities	-	0.1	0.1	-	-	-	0.1
At 31 December 2013	2,773.2	469.7	3,242.9	19.7	-	22.6	3,285.2

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 30 June 2014							
Fair value	**3,140.0**	**510.6**	**3,650.6**	**23.1**	**36.0**	**32.4**	**3,742.1**
Revaluation of trading property	-	-	-	-	-	(3.1)	(3.1)
Lease incentives and costs included in receivables	(73.4)	(4.0)	(77.4)	-	(0.5)	-	(77.9)
Grossing up of headlease liabilities	-	8.2	8.2	-	-	-	8.2
Carrying value	**3,066.6**	**514.8**	**3,581.4**	**23.1**	**35.5**	**29.3**	**3,669.3**
At 30 June 2013							
Fair value	2,516.7	427.7	2,944.4	18.1	130.0	11.2	3,103.7
Lease incentives and costs included in receivables	(60.1)	(3.9)	(64.0)	-	(0.5)	-	(64.5)
Grossing up of headlease liabilities	-	8.1	8.1	-	0.7	-	8.8
Carrying value	2,456.6	431.9	2,888.5	18.1	130.2	11.2	3,048.0
At 31 December 2013							
Fair value	2,843.1	465.6	3,308.7	19.7	-	24.7	3,353.1
Revaluation of trading property	-	-	-	-	-	(2.1)	(2.1)
Lease incentives and costs included in receivables	(69.9)	(4.1)	(74.0)	-	-	-	(74.0)
Grossing up of headlease liabilities	-	8.2	8.2	-	-	-	8.2
Carrying value	2,773.2	469.7	3,242.9	19.7	-	22.6	3,285.2

The property portfolio is subject to semi-annual external valuations and was revalued at 30 June 2014 by external valuers on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2012), which takes account of the properties' highest and best use.

CBRE Limited valued the majority of the properties at £3,710.9m (30 June 2013: £3,073.6m; 31 December 2013: £3,322.8m) and other valuers valued the remaining properties at £31.2m (30 June 2013: £30.1m; 31 December 2013: £30.3m). Of the properties revalued by CBRE, £23.1m (30 June 2013: £18.1m; 31 December 2013: £19.7m) relating to owner-occupied property was included within property, plant and equipment, £36.0m (30 June 2013: £130.0m; 31 December 2013: £nil) was included within non-current assets held for sale, and £32.4m (30 June 2013: £11.2m; 31 December 2013: £24.7m) was in relation to trading property.

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

At 30 June 2014, the historic cost of the property portfolio owned by the Group was £2,473.9m (30 June 2013: £2,295.6m; 31 December 2013: £2,414.6m).

During the year ended 31 December 2013, the Group transferred, at market value, properties previously held for investment to trading property as it became the Group's intention to redevelop and sell these properties. Subsequent revaluation surpluses relating to trading property are recognised as an adjustment to EPRA net asset value, but, in accordance with IAS 2 Inventories, are not recognised in the carrying value of the property.

Reconciliation of revaluation surplus

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Total revaluation surplus	**339.2**	178.5	352.5
Lease incentives and costs	**(4.0)**	(3.0)	(13.0)
Trading property revaluation surplus	**(1.0)**	-	(2.1)
Owner-occupied property depreciation	**0.1**	-	0.1
IFRS revaluation surplus	**334.3**	175.5	337.5
Reported in the:			
Group income statement	**330.8**	175.3	335.6
Group statement of comprehensive income	**3.5**	0.2	1.9
	334.3	175.5	337.5

The fair value of the property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

For properties under construction, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy in the half years to 30 June 2014 or 30 June 2013, or the year to 31 December 2013.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £330.8m (half year to 30 June 2013: £175.3m; year to 31 December 2013: £335.6m) and are presented in the Group income statement in the line item 'revaluation surplus'. The revaluation surplus for the owner-occupied property of £3.5m (half year to 30 June 2013: £0.2m; year to 31 December 2013: £1.9m) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in the half years to 30 June 2014 and 30 June 2013, and the year to 31 December 2013 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 30 June 2014, 30 June 2013 and 31 December 2013, respectively.

13. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2014	19.7	1.5	1.0	22.2
Depreciation	(0.1)	-	(0.2)	(0.3)
Revaluation	3.5	-	-	3.5
At 30 June 2014	**23.1**	**1.5**	**0.8**	**25.4**
At 1 January 2013	17.9	1.5	0.9	20.3
Additions	-	-	0.2	0.2
Depreciation	-	-	(0.2)	(0.2)
Revaluation	0.2	-	-	0.2
At 30 June 2013	18.1	1.5	0.9	20.5
At 1 January 2013	17.9	1.5	0.9	20.3
Additions	-	-	0.5	0.5
Disposals	-	-	(0.1)	(0.1)
Depreciation	(0.1)	-	(0.3)	(0.4)
Revaluation	1.9	-	-	1.9
At 31 December 2013	19.7	1.5	1.0	22.2
Net book value				
Cost or valuation	23.1	1.5	2.5	27.1
Accumulated depreciation	-	-	(1.7)	(1.7)
At 30 June 2014	**23.1**	**1.5**	**0.8**	**25.4**
Net book value				
Cost or valuation	18.1	1.5	2.3	21.9
Accumulated depreciation	-	-	(1.4)	(1.4)
At 30 June 2013	18.1	1.5	0.9	20.5
Net book value				
Cost or valuation	19.7	1.5	2.5	23.7
Accumulated depreciation	-	-	(1.5)	(1.5)
At 31 December 2013	19.7	1.5	1.0	22.2

The artwork is periodically valued by Bonhams on the basis of open market value and their extensive market knowledge. The latest valuation was carried out in November 2012 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 30 June 2014 was £1.5m (30 June 2013: £1.5m; 31 December 2013: £1.5m).

14. Other receivables (non-current)

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Accrued income	**70.4**	58.3	66.4
Other	**6.1**	5.5	5.7
	76.5	63.8	72.1

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £7.5m (30 June 2013: £6.2m; 31 December 2013: £7.6m), which was included as current assets within trade and other receivables, these amounts totalled £77.9m at 30 June 2014 (30 June 2013: £64.5m; 31 December 2013: £74.0m).

15. Trade and other receivables

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Trade receivables	**5.4**	9.0	11.2
Other receivables	**15.5**	14.5	15.4
Prepayments	**19.1**	21.5	15.2
Sales and social security taxes	**2.8**	2.5	3.3
Accrued income	**8.9**	7.5	8.4
	51.7	55.0	53.5

16. Non-current assets held for sale

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Investment property (see note 12)	**35.5**	130.2	-
Investments	**-**	-	4.8
	35.5	130.2	4.8

In July 2014, the Group exchanged contracts and completed on the sale of two freehold properties for a total of £37.4m before costs.

In February 2014, the Group conditionally exchanged contracts to sell its 25% interest in the Euro Mall Sterboholy a.s. joint venture in Prague for £5.4m before costs. In addition, as part of the transaction, a further £1.9m was received as repayment of a shareholder loan.

In July 2013, the Group completed the sale of its 50% interest in 1-5 Grosvenor Place SW1 for a total of £132.5m before costs.

As a result, this investment and these properties were recognised as non-current assets held for sale at 30 June 2014, 31 December 2013 and 30 June 2013, respectively, in accordance with IFRS 5 Non-current Assets Held for Sale.

17. Trade and other payables

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Trade payables	**6.6**	8.5	8.9
Other payables	**12.8**	12.9	10.5
Accruals	**33.0**	28.4	28.1
Deferred income	**38.7**	35.6	36.1
	91.1	85.4	83.6

18. Borrowings and derivative financial instruments

	30.06.2014		30.06.2013		31.12.2013	
	Book value £m	**Fair value £m**	Book Value £m	Fair value £m	Book value £m	Fair value £m
Current liabilities						
Bank loans	**-**	**-**	124.9	125.0	-	-
	-	**-**	124.9	125.0	-	-
Non-current liabilities						
2.75% unsecured convertible bonds 2016	**169.1**	**212.6**	166.4	199.3	167.7	204.5
1.125% unsecured convertible bonds 2019	**136.3**	**145.1**	-	-	135.0	138.1
6.5% secured bonds 2026	**190.2**	**208.3**	191.1	202.7	190.6	199.0
4.68% unsecured private placement notes	**74.2**	**75.3**	-	-	-	-
4.41% unsecured private placement notes	**24.7**	**25.1**	-	-	-	-
3.99% secured loan	**81.8**	**77.0**	81.7	77.4	81.8	74.3
Unsecured bank loans	**200.9**	**206.0**	-	-	281.1	287.0
Secured bank loans	**97.4**	**98.0**	368.2	372.5	97.3	98.0
Leasehold liabilities	**8.2**	**8.2**	8.9	8.9	8.2	8.2
Borrowings	**982.8**	**1,055.6**	816.3	860.8	961.7	1,009.1
Derivative financial instruments expiring in greater than one year	**15.9**	**15.9**	37.3	37.3	15.9	15.9
Borrowings and derivative financial instruments	**998.7**	**1,071.5**	978.5	1,023.1	977.6	1,025.0

Reconciliation to net debt:			
Borrowings and derivative financial instruments	**998.7**	978.5	977.6
Less:			
Derivative financial instruments	**(15.9)**	(37.3)	(15.9)
Cash and cash equivalents	**(8.7)**	(5.5)	(12.5)
Net debt	**974.1**	935.7	949.2

The fair values of the Group's bonds have been estimated on the basis of quoted market prices, representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement.

The fair values of the 3.99% secured loan and the unsecured private placement notes were determined by comparing the discounted future cash flows using the contracted yield with those of a prevailing market gilt, and represent Level 2 fair value measurement.

The fair values of the Group's outstanding interest rate swaps have been estimated by using the mid-point of the yield curves prevailing on the reporting date and represent the net present value of the differences between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates. These represent Level 2 fair value measurement.

The fair values of the Group's bank loans are approximately the same as their carrying amounts, after adjusting for the unamortised arrangement fees, and also represent Level 2 fair value measurement.

The fair values of the following financial assets and liabilities are the same as their carrying amounts:

- Cash and cash equivalents;
- Trade receivables, other receivables and accrued income included within trade and other receivables;
- Trade payables, other payables and accruals included within trade and other payables; and
- Leasehold liabilities.

There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 in the fair value hierarchy in the half years to 30 June 2014 or 30 June 2013, or the year to 31 December 2013.

19. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2014	5.5	(4.5)	1.0
Charged to the income statement	0.5	1.4	1.9
Changes in tax rates in the income statement	(0.2)	0.2	-
Charged to other comprehensive income	0.6	-	0.6
Changes in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 30 June 2014	**6.3**	**(2.9)**	**3.4**
At 1 January 2013	4.1	(4.6)	(0.5)
Charged to the income statement	0.5	0.1	0.6
At 30 June 2013	4.6	(4.5)	0.1
At 1 January 2013	4.1	(4.6)	(0.5)
Charged/(credited) to the income statement	1.6	(0.3)	1.3
Changes in tax rates in the income statement	(0.3)	0.4	0.1
Charged to other comprehensive income	0.2	-	0.2
Changes in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 31 December 2013	5.5	(4.5)	1.0

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

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

20. Dividend

	Payment date	Dividend per share			Half year to 30.06.2014	Half year to 30.06.2013	Year to 31.12.2013
		PID	Non-PID	Total			
		p	p	p	£m	£m	£m
Current period							
2014 interim dividend	23 October 2014	7.30	4.35	11.65	-	-	-
Distribution of current period profit		7.30	4.35	11.65			
Prior period							
2013 interim dividend	24 October 2013	6.00	4.75	10.75	-	-	10.9
Distribution of prior period profit		6.00	4.75	10.75			
Prior year							
2013 final dividend	13 June 2014	23.50	2.25	25.75	**26.4**	-	-
Distribution of prior year profit		29.50	7.00	36.50			
2012 final dividend	14 June 2013	18.75	5.00	23.75	**-**	24.3	24.3
Dividends as reported in the statement of changes in equity					**26.4**	24.3	35.2
2013 final scrip dividend	13 June 2014				**(1.1)**	-	-
2013 final dividend withholding tax	14 July 2014				**(3.4)**	-	-
2013 interim dividend withholding tax	14 January 2014				**0.9**	-	(0.9)
2013 interim scrip dividend	24 October 2013				**-**	-	(1.2)
2012 final scrip dividend	14 June 2013				**-**	(3.5)	(3.5)
2012 final dividend withholding tax	12 July 2013				**-**	(2.8)	-
2012 interim dividend withholding tax	14 January 2013				**-**	1.5	1.5
Dividends paid as reported in the cash flow statement					**22.8**	19.5	31.1

21. Gearing ratios

NAV gearing

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Net debt	**974.1**	935.7	949.2
Net assets	**2,719.1**	2,118.2	2,370.5
NAV gearing	**35.8%**	44.2%	40.0%

Loan-to-value ratio

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Net debt	**974.1**	935.7	949.2
Fair value adjustment of secured bonds	**(16.5)**	(17.4)	(16.9)
Unamortised arrangement costs	**14.1**	9.7	14.6
Leasehold liabilities	**(8.2)**	(8.9)	(8.2)
Drawn debt	**963.5**	919.1	938.7
Fair value of property portfolio	**3,742.1**	3,103.7	3,353.1
Loan-to-value ratio	**25.7%**	29.6%	28.0%

Net interest cover ratio

	Half year to 30.06.2014 £m	Half year to 30.06.2013 £m	Year to 31.12.2013 £m
Net property and other income	**65.9**	59.5	124.3
Adjustments for:			
Other income	**(1.1)**	(1.1)	(2.0)
Other property income	**(1.4)**	-	-
Net surrender premiums received	**-**	(0.1)	(0.7)
Reverse surrender premiums	**0.3**	0.3	0.2
Adjusted net property income	**63.7**	58.6	121.8
Finance income	**-**	-	(0.2)
Finance costs	**21.1**	20.7	41.4
	21.1	20.7	41.2
Adjustments for:			
Finance income	**-**	-	0.2
Other finance costs	**-**	(0.2)	(0.3)
Amortisation of fair value adjustment to secured bonds	**0.5**	0.4	0.9
Amortisation of issue and arrangement costs	**(1.7)**	(1.5)	(3.2)
Finance costs capitalised	**2.3**	3.4	4.8
	22.2	22.8	43.6
Net interest cover ratio	**287%**	257%	279%

22. Total return

	Half year to 30.06.2014 p	Half year to 30.06.2013 p	Year to 31.12.2013 p
EPRA net asset value on a diluted basis			
At end of period	**2,572.00**	2,054.00	2,264.00
At start of period	**(2,264.00)**	(1,886.00)	(1,886.00)
Increase	**308.00**	168.00	378.00
Dividend per share	**25.75**	23.75	34.50
Increase including dividend	**333.75**	191.75	412.50
Total return	**14.7%**	10.2%	21.9%

23. Cash and cash equivalents

	30.06.2014 £m	30.06.2013 £m	31.12.2013 £m
Cash at bank	**8.7**	5.5	12.5

24. Post balance sheet events

Since 30 June 2014, the Group has completed the disposal of 186-188 City Road and 35–37 Kentish Town Road for a total of £37.4m before costs, which will generate a profit before tax of £12.6m in the full year 2014 results. Of this, £11.2m has been recognised in the 30 June 2014 revaluation surplus.

25. Risk management and internal control

The Board recognises that risk is an inherent part of running a business and, whilst it aims to maximise returns, the associated risks must be understood and managed. Whilst overall responsibility for this process rests with the Board it has delegated responsibility for assurance concerning the risk management process to the Audit Committee and the Risk Committee. Executive management is responsible for designing, implementing and maintaining the necessary systems of internal control.

The Group operates principally from one central London office with relatively short management reporting lines. Consequently, members of the Executive Committee are closely involved in day-to-day matters and able to quickly identify areas of increasing risk and respond accordingly.

A key element in the system of internal controls is the Group's risk register which is reviewed formally by the Board once a year. During 2013, the Group's processes for preparing the risk register and reporting the results both internally and externally were reviewed by a third party. Whilst no major points were identified a number of recommendations were made which were implemented in preparing the register this year. The register is prepared by the members of the Executive Committee who, having identified the risks, collectively assess the severity of each risk, the likelihood of it occurring and the strength of the controls in place. This approach allows the effect of any mitigating procedures to be reflected in the final assessment. It also recognises that risk cannot be totally eliminated at an acceptable cost and that there are some risks which, with its experience and after due consideration, the Board will choose to accept.

The register, its method of preparation and the operation of the key controls in the Group's system of internal control, are reviewed throughout the year by the Risk Committee which periodically receives presentations from senior management to gain a more in-depth understanding of the control environment in certain areas of the business. The register was updated between December 2013 and February 2014 and includes 42 risks spread between strategic risks, operational risks and financial risks.

The principal risks and uncertainties that the Group faces in 2014, together with the controls and mitigating factors, are set out below:

Strategic risks

That the Group's strategy does not create the anticipated shareholder value or fails to meet investors' expectations.

Risk, effect and progression	Controls and mitigation	Action
• **Inconsistent strategy** The Group's strategy is inconsistent with the state of the market in which it operates. • **Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. The Group currently benefits from a strong central London market which could be adversely affected by a number of high level economic or political factors. This would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – total return and total property return.	• The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios caused by changing the main underlying assumptions to reflect different economic scenarios. • The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility arises from the policy of maintaining income from properties for as long as possible until development starts. • Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable. • The risk remains significant and therefore in forming its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	• The last annual strategic review was carried out by the Board in June 2014. This considered the sensitivity of six key measures to changes in underlying assumptions including timing of projects, capital recycling, rental levels and property values. • The three rolling forecasts prepared during the year focus on the same key measures but consider the effect of varying different assumptions to reflect changing economic and market conditions. • The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. • During the year the Group's loan-to-value ratio remained below 30%, its net interest cover ratio was above 285% and the REIT ratios were comfortably met.
• **Regulatory non-compliance** The Group's cost base is increased and management time diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. An increase in costs would directly impact on the Group's total return KPI. A significant diversion of management time could affect a wider range of key metrics.	• The Group's Risk Committee reports to the Board concerning regulatory risk. • The Group employs a Health and Safety manager. • The Group employs a Sustainability manager who reports to the Sustainability Committee which is chaired by Paul Williams. • The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet and in the Group's Staff Handbook.	• A Health and Safety report is presented at all Executive Committee and main Board meetings. • The Executive Committee receives regular reports from the sustainability manager. • The Group pays considerable attention to sustainability issues and produces a Sustainability Report annually.

- **Reputational damage**
  The Group's reputation is damaged through unauthorised and inaccurate media coverage.

  This risk would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs.

- All new members of staff benefit from an induction programme and are issued with the Group's Staff Handbook.
- Social media channels are monitored.
- The Group takes advice on technological changes in the use of media and adapts its approach accordingly.
- There is an agreed procedure for approving all external statements.

- The Group employs a Head of Investor and Corporate Communications and retains the services of an external PR agency. Both maintain regular contact with external media sources.
- The Group engages with a number of local community bodies in areas where it operates as part of its CSR activity.

Financial risks

That the Group becomes unable to meet its financial obligations or finance the business appropriately.

Risk, effect and progression	Controls and mitigation	Action
• **Higher interest rates** Financing costs are higher due to increases in interest rates. This risk would affect the Group's interest cover ratio KPI.	• The Group uses interest rate derivatives to "top up" the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	• In 2013 the Group terminated two interest rate swaps which were at historic rates and initiated new instruments which have locked in the lower long-term rates that are currently available. • 98% of borrowings were fixed or hedged at the half year end. • Additional 15 and 20-year fixed rate debt was put in place in January 2014.
• **Increase in interest rates** Increases in interest rates can lead to higher property yields which cause property values to fall. This would affect the following KPIs: o Loan-to-value ratio. o Total return. o Total property return. Interest rates have remained low for an extended period of time and yields are at or near historic lows. With the UK's improving economic background, gilt rates rose in 2013, but have subsequently fallen in H1 2014 and a base rate rise is likely within the next year. Though there is no direct relationship, property yields may soften in due course.	• The impact of such changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved. • The impact of yield changes is considered when potential projects are appraised.	• The Group produces three rolling forecasts each year which contain detailed sensitivity analyses. • Quarterly management accounts report on the Group's performance against covenants. • Project appraisals are regularly reviewed and updated. • Changes to the Group's financing profile during 2013 have simplified the management of its financial covenants.

Operational risks

The Group suffers either a loss or adverse consequences due to processes being inadequate or not operating correctly.

Risk, effect and progression	Controls and mitigation	Action
• **Reduced development returns** The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: : Delays in the planning process. : Delays due to contractors/ sub-contractors defaulting. : Increased construction costs. : Adverse letting conditions. This would have an effect on the Group's total return and total property return KPIs.	• Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group's development programme is managed to reflect anticipated market conditions. • Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage. • Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified and implemented. • Alternative procurement methods are being evaluated as a way of minimising the effect of increased construction costs.	• The Group is advised by top planning consultants and has considerable in-house planning expertise. • Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. • The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing. • The Group's style of accommodation remains in demand as evidenced by the 27 lettings achieved in the first half of 2014 which totalled 89,800 sq ft. • The Group has secured significant pre-lets of the space in its current development programme which significantly "de-risks" these projects.
• **Tenant default** The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. Low levels of growth in the UK economy could lead to an increase in tenant business failure. This risk would have an immediate effect on the Group's tenant receipts and void management KPIs and, if significant, on the total property return, total return and interest cover ratio.	• All prospective tenants are considered by the Group's Credit Committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. • The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. • The Group's credit committee regularly reviews a list of slow payers and considers what actions should be taken.	• The Group has a diversified tenant base. • The credit committee meets each week and considered 63 potential tenants in the first half of 2014. • In total the Group holds rental deposits amounting to £10.0m. • On average during the first half of the year, the Group has collected 99% of the rents due within 14 days of the due date.
• **Shortage of key staff** The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills. This risk could impact on any	• The remuneration packages of all employees are bench-marked regularly. • Six-monthly appraisals identify training requirements which are fulfilled over the next six months.	• The Group recruited six new members of staff during the first half of 2014. • Staff turnover during the first half of 2014 was low at 4%.

of the Group's KPIs.	• The Nominations Committee considers succession matters as a standard agenda item.

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.

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.

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

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

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

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

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time.

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

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

Fair value and cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 30 June 2014, the proportion of fixed debt held by the Group was above this range at 98%. During both 2014 and 2013, the Group's borrowings at variable rate were denominated in sterling.

The Group monitors the interest rate exposure on a regular basis. The Group manages its cash flow interest rate risk

by using floating-to-fixed interest rate swaps. The Group generally raises long-term borrowings at fixed rates.

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

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

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

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

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined at the end of this announcement and are derived in note 21.

26. List of definitions

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

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

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

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

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA earnings per share**

Recurring earnings from core operational activities.

- **EPRA net asset value per share**

NAV adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

- **EPRA triple net asset value per share**

EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.

- **EPRA cost ratio (including direct vacancy costs)**

EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.

- **EPRA cost ratio (excluding direct vacancy costs)**

Calculated as above, but with an adjustment to exclude direct vacancy costs.

- **EPRA net initial yield (NIY)**

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

- **EPRA "topped-up" net initial yield**

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

- **EPRA vacancy rate**

Estimated rental value (ERV) of immediately available space divided by ERV of the EPRA portfolio.

- **EPRA like-for-like rental income growth**

The growth in rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, surrender premiums and properties acquired or disposed of in either period.

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

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

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

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

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

Key Performance Indicators (KPIs)
Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is assessed.

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

Loan-to-value ratio (LTV)
Drawn debt divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less cash and the unamortised equity element of the convertible bonds.

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

NAV gearing
Net debt divided by net assets.

Net assets per share or net asset value (NAV)
Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Net debt
Borrowings and derivative financial instruments plus bank overdraft less cash and cash equivalents.

Net interest cover ratio
Net property income, excluding other income, net surrender premiums received and reverse surrender premiums, divided by interest payable on borrowings and non-utilisation fees.

Property income distribution (PID)
Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

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

Real Estate Investment Trust (REIT)
The Government established REIT status in the UK on 1 January 2007 to remove tax inequalities between different real estate investors and aimed to improve overall investor access to real estate. REITs are companies which are exempt from corporate taxation on profits from property rental income and capital gains on the sale of investment properties. REITs must distribute 90% of profits from rental income in the form of property income dividends (PIDs). This makes the tax implications of investing in REITs equivalent to investing directly in property. REITs are also required to meet certain conditions including the proportion of total profits and assets accounted for by their property rental businesses. They remain liable to corporation tax on non-property investment businesses e.g. management fees and interest receivable. Derwent London has been a REIT since 1 July 2007.

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

Reversion
The reversion is the amount by which ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

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

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

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

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields

- **Net initial yield**

Annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.

- **Reversionary yield**

The anticipated yield, which the net initial yield will rise to once the rent reaches the estimated rental values.

- **True equivalent yield**

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

- **Yield shift**

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

27. Copies of this announcement will be available on the company's website, www.derwentlondon.com, from the date of this statement. Copies will also be available from the Company Secretary, Derwent London plc, 25 Savile Row, London, W1S 2ER.

Independent review report to Derwent London plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, contained in the interim results of Derwent London plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Derwent London plc, comprise:

- the Group condensed balance sheet as at 30 June 2014;
- the Group condensed income statement and statement of comprehensive income for the period then ended;
- the Group condensed cash flow statement for the period then ended;
- the Group condensed statement of changes in equity for the period then ended; and
- the explanatory notes to the Group condensed interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the Directors

The interim results, including the condensed consolidated interim financial statements, are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing the interim results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements contained in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
14 August 2014
London