GROUP INCOME STATEMENT

for the year ended 31 December 2013

	Note	2013 £m	2012 £m
Gross property and other income	5	**160.5**	150.6
Net property and other income	5	**124.3**	117.0
Administrative expenses		**(26.4)**	(24.5)
Movement in valuation of cash-settled share options		**(0.3)**	(0.6)
Total administrative expenses		**(26.7)**	(25.1)
Revaluation surplus	18	**335.6**	174.4
Profit on disposal of investment property	6	**53.5**	6.9
Profit on disposal of investment	7	**–**	3.9
Profit from operations		**486.7**	277.1
Finance income	8	**0.2**	0.4
Finance costs		**(41.4)**	(41.2)
Loan arrangement costs written off		**(3.2)**	–
Total finance costs	8	**(44.6)**	(41.2)
Movement in fair value of derivative financial instruments		**38.5**	(2.4)
Financial derivative termination costs	9	**(13.7)**	(6.9)
Share of results of joint ventures	10	**0.8**	1.1
Profit before tax	11	**467.9**	228.1
Tax (charge)/credit	16	**(2.4)**	4.6
Profit for the year		**465.5**	232.7
Attributable to:			
Equity shareholders	32	**456.6**	226.9
Minority interest		**8.9**	5.8
Earnings per share	17	**446.40p**	222.76p
Diluted earnings per share	17	**412.72p**	211.82p

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	2013 £m	2012 £m
Profit for the year		**465.5**	232.7
Actuarial gains on defined benefit pension scheme	15	**–**	1.2
Revaluation surplus of owner-occupied property	18	**1.9**	0.9
Deferred tax on revaluation surplus	29	**(0.1)**	0.3
Items that will not be reclassified to profit or loss		**1.8**	2.4
Foreign currency translation	8	**–**	(0.3)
Reclassification of exchange differences to income statement	7	**–**	(3.9)
Items that may be reclassified subsequently to profit or loss		**–**	(4.2)
Other comprehensive income/(expense)		**1.8**	(1.8)
Total comprehensive income relating to the year		**467.3**	230.9
Attributable to:			
Equity shareholders		**458.4**	225.1
Minority interest		**8.9**	5.8
		467.3	230.9

The notes on pages 126 to 162 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2013

	Note	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Non-current assets					
Investment property	18	**3,242.9**	2,772.6	**–**	–
Property, plant and equipment	19	**22.2**	20.3	**1.8**	1.7
Investments	20	**5.1**	10.2	**899.1**	912.1
Deferred tax	29	**–**	0.5	**4.3**	4.3
Pension scheme surplus	15	**0.8**	0.2	**0.8**	0.2
Other receivables	21	**72.1**	60.9	**–**	–
		3,343.1	2,864.7	**906.0**	918.3
Current assets					
Trading property	18	**22.6**	–	**–**	–
Trade and other receivables	22	**53.5**	50.8	**1,208.6**	792.4
Corporation tax asset		**–**	–	**0.4**	0.4
Cash and cash equivalents	34	**12.5**	4.4	**10.9**	1.2
		88.6	55.2	**1,219.9**	794.0
Non-current assets held for sale	23	**4.8**	16.5	**–**	–
Total assets		**3,436.5**	2,936.4	**2,125.9**	1,712.3
Current liabilities					
Trade and other payables	24	**83.6**	80.5	**282.8**	107.7
Corporation tax liability		**1.4**	1.9	**–**	–
Provisions	25	**1.7**	1.7	**0.7**	0.6
		86.7	84.1	**283.5**	108.3
Non-current liabilities					
Borrowings	26	**961.7**	879.2	**734.9**	650.9
Derivative financial instruments	26	**15.9**	54.3	**13.9**	50.2
Provisions	25	**0.7**	0.8	**0.7**	0.8
Deferred tax	29	**1.0**	–	**–**	–
		979.3	934.3	**749.5**	701.9
Total liabilities		**1,066.0**	1,018.4	**1,033.0**	810.2
Total net assets		**2,370.5**	1,918.0	**1,092.9**	902.1
Equity					
Share capital	30	**5.0**	5.0	**5.0**	5.0
Share premium	31	**170.4**	165.3	**170.4**	165.3
Other reserves	31	**948.6**	934.0	**651.4**	681.9
Retained earnings	31	**1,180.0**	756.1	**266.1**	49.9
Equity shareholders' funds		**2,304.0**	1,860.4	**1,092.9**	902.1
Minority interest		**66.5**	57.6	**–**	–
Total equity		**2,370.5**	1,918.0	**1,092.9**	902.1

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2014.

John D. Burns
Director

Damian M.A. Wisniewski
Director

The notes on pages 126 to 162 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Group							
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**
At 1 January 2012	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
Profit for the year	–	–	–	226.9	226.9	5.8	232.7
Other comprehensive income	–	–	(3.0)	1.2	(1.8)	–	(1.8)
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
At 31 December 2012	5.0	165.3	934.0	756.1	1,860.4	57.6	1,918.0
Company							
At 1 January 2013	5.0	165.3	681.9	49.9	902.1	–	902.1
Profit for the year	–	–	–	205.6	205.6	–	205.6
Share-based payments	–	0.4	0.5	2.5	3.4	–	3.4
Issue of long-term intercompany loan	–	–	12.3	–	12.3	–	12.3
Transfer between reserves[2]	–	–	(43.3)	43.3	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2013	**5.0**	**170.4**	**651.4**	**266.1**	**1,092.9**	**–**	**1,092.9**
At 1 January 2012	5.0	162.9	600.5	31.4	799.8	–	799.8
Profit for the year	–	–	–	128.5	128.5	–	128.5
Other comprehensive income	–	–	–	1.2	1.2	–	1.2
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Transfer between reserves[2]	–	–	81.0	(81.0)	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
At 31 December 2012	5.0	165.3	681.9	49.9	902.1	–	902.1

[1] See note 31.

[2] £43.3m (2012: £71.6m) of this transfer from retained earnings to other reserves related to the impairment of the Company's investment in London Merchant Securities Ltd. The remainder in 2012 related to the equity portion of the long-term intercompany loan.

The notes on pages 126 to 162 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2013

	Note	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Operating activities					
Property income		**123.3**	118.1	**–**	–
Property expenses		**(9.1)**	(9.9)	**–**	–
Cash paid to and on behalf of employees		**(19.0)**	(17.8)	**(18.1)**	(17.1)
Other administrative expenses		**(4.9)**	(4.3)	**(5.8)**	(4.4)
Interest received		**0.2**	0.1	**–**	–
Interest paid	8	**(32.3)**	(33.3)	**(19.8)**	(22.0)
Other finance costs		**(3.4)**	(3.4)	**(2.8)**	(3.2)
Other income		**2.8**	2.5	**2.2**	2.4
Distributions received from joint ventures		**1.2**	0.7	**0.5**	0.4
Tax (paid)/received in respect of operating activities		**(1.3)**	(0.2)	**–**	0.2
Net cash from/(used in) operating activities		**57.5**	52.5	**(43.8)**	(43.7)
Investing activities					
Acquisition of investment properties		**(130.1)**	(99.8)	**–**	–
Capital expenditure on the property portfolio	8	**(108.4)**	(78.6)	**–**	–
Disposal of investment properties		**149.7**	161.0	**–**	–
Purchase of property, plant and equipment		**(0.4)**	(0.4)	**(0.4)**	(0.4)
Purchase of investment in subsidiary		**–**	–	**(33.4)**	(3.3)
Advances to minority interest holder		**(2.5)**	(2.4)	**–**	–
REIT conversion charge		**(0.6)**	–	**–**	–
Net cash used in investing activities		**(92.3)**	(20.2)	**(33.8)**	(3.7)
Financing activities					
Net proceeds of bond issue		**146.2**	–	**–**	–
Repayment of revolving bank loan		**(274.5)**	(123.0)	**(274.5)**	–
Drawdown of new revolving bank loan		**280.6**	73.0	**280.6**	73.0
Net movement in intercompany loans		**–**	–	**190.6**	(174.9)
Net movement in other revolving bank loans		**–**	133.5	**–**	133.5
Repayment of non-revolving bank loans		**(65.0)**	(158.5)	**(65.0)**	(33.5)
Drawdown of non-revolving loan		**–**	81.6	**–**	81.6
Repayment of loan notes		**–**	(1.1)	**–**	(1.1)
Financial derivative termination costs		**(13.7)**	(6.9)	**(13.7)**	–
Net proceeds of share issues	30	**0.4**	0.4	**0.4**	0.4
Dividends paid	33	**(31.1)**	(30.4)	**(31.1)**	(30.4)
Net cash from/(used in) financing activities		**42.9**	(31.4)	**87.3**	48.6
Increase in cash and cash equivalents in the year		**8.1**	0.9	**9.7**	1.2
Cash and cash equivalents at the beginning of the year		**4.4**	3.5	**1.2**	–
Cash and cash equivalents at the end of the year	34	**12.5**	4.4	**10.9**	1.2

The notes on pages 126 to 162 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, available for sale investments, and financial assets and liabilities held for trading.

2 Changes in accounting policies

The principal accounting policies are described in note 42 and are consistent with the 2012 annual financial statements, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year. The new standards adopted during 2013 are outlined below.

IFRS 7 (amended) – Offsetting Financial Assets and Financial Liabilities;
IFRS 13 Fair Value Measurement;
IAS 1 (amended) – Presentation of Items of Other Comprehensive Income;
IAS 12 (amended) – Deferred Tax: Recovery of Underlying Assets; and
IAS 19 (revised) – Employee Benefits.

These had no material impact on the financial statements, but the adoption of IFRS 13 Fair Value Measurement has resulted in additional disclosure.

Standards and interpretations in issue but not yet effective

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

IFRS 9 Financial Instruments;
IFRS 12 Disclosure of Interests in Other Entities;
IAS 19 (amended) – Defined Benefit Plans – Employee Contributions;
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;
Annual Improvements to IFRSs (2010 – 2012 Cycle); and
Annual Improvements to IFRSs (2011 – 2013 Cycle).

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

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

3 Significant judgements, key assumptions and estimates

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

The Group's significant accounting policies are stated in note 42. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

Trade receivables

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

Property portfolio valuation

The Group uses the valuation carried out by its independent valuers as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. More information is provided in note 18.

Outstanding rent reviews

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

Compliance with the real estate investment trust (REIT) taxation regime
The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as follows:

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

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

Contingent consideration
Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.

4 Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is its Executive 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 17. Additionally, information is provided to the Executive Committee showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property, assets held for sale and trading property and comprised 93% office buildings[1] by value (2012: 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% (2012: 7%) represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

No tenant accounts for more than 10% of gross property income in either 2013 or 2012, and no individual property accounts for more than 10% of the value of the property portfolio in either year.

All of the Group's properties are based in the UK. The Group also has a joint venture investment in Prague which represents 0.1% of the Group's assets (see notes 20 and 23), is in the process of being sold and is excluded from this analysis. 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 strategic report.

[1] Some office buildings have an ancillary element such as retail or residential.

Gross property income

	2013			2012		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	77.0	4.4	**81.4**	78.0	1.9	79.9
West End borders	13.5	0.2	**13.7**	11.5	0.2	11.7
City borders	31.4	0.2	**31.6**	27.3	0.1	27.4
Provincial	–	4.9	**4.9**	–	5.8	5.8
	121.9	9.7	**131.6**	116.8	8.0	124.8

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

Property portfolio

	2013			2012		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	1,923.9	120.7	**2,044.6**	1,782.9	86.1	1,869.0
West End borders	270.3	13.1	**283.4**	244.5	9.9	254.4
City borders	863.4	4.6	**868.0**	590.2	4.5	594.7
Provincial	–	89.2	**89.2**	–	88.9	88.9
	3,057.6	227.6	**3,285.2**	2,617.6	189.4	2,807.0
Fair value						
West End central	1,953.0	123.5	**2,076.5**	1,806.4	86.2	1,892.6
West End borders	289.9	13.1	**303.0**	259.7	9.9	269.6
City borders	875.3	4.6	**879.9**	599.4	4.5	603.9
Provincial	–	93.7	**93.7**	–	93.5	93.5
	3,118.2	234.9	**3,353.1**	2,665.5	194.1	2,859.6

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

5 Property and other income

	2013 £m	2012 £m
Gross rental income	**130.9**	124.7
Surrender premiums received	**1.6**	0.3
Write-off of associated rents previously recognised in advance	**(0.9)**	(0.2)
	0.7	0.1
Gross property income	**131.6**	124.8
Service charge income	**26.9**	23.3
Other income	**2.0**	2.5
Gross property and other income	**160.5**	150.6

Gross rental income	**130.9**	124.7
Ground rent	**(0.4)**	(0.5)
Service charge income	**26.9**	23.3
Service charge expenses	**(28.8)**	(24.8)
	(1.9)	(1.5)
Other property costs	**(6.9)**	(8.6)
Net rental income	**121.7**	114.1
Other income	**2.0**	2.5
Net surrender premiums received	**0.7**	0.1
Reverse surrender premiums	**(0.2)**	(0.2)
Dilapidation receipts	**0.1**	0.5
Net property and other income	**124.3**	117.0

Included within rental income is £2.3m (2012: £2.5m) of income from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £5.6m (2012: £8.2m) relating to rents recognised in advance of the cash receipts.

Other income relates to fees and commissions earned in relation to the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of services.

Net property and other income includes costs of £0.4m (2012: £0.5m) relating to properties which produced no income during the year.

6 Profit on disposal of investment property

	2013 £m	2012 £m
Gross disposal proceeds	**151.3**	162.0
Costs of disposal	**(1.5)**	(1.1)
Net disposal proceeds	**149.8**	160.9
Carrying value	**(96.4)**	(154.2)
Adjustment for rents recognised in advance	**(0.7)**	(0.9)
Movement in grossing up of headlease liability	**0.8**	1.1
	53.5	6.9

Included in the 2013 profit on disposal figure is £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 Profit on disposal of investment

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

8 Finance income and costs

	2013 £m	2012 £m
Finance income		
Net interest received on defined benefit pension scheme asset	–	0.1
Foreign exchange gain	–	0.3
Other	0.2	–
Total finance income	0.2	0.4
Finance costs		
Bank loans and overdraft	17.4	20.5
Non-utilisation fees	2.8	3.3
Secured loan	3.3	1.4
Secured bonds	11.4	11.4
Unsecured convertible bonds	8.2	6.6
Amortisation of issue and arrangement costs	3.2	3.1
Amortisation of the fair value of the secured bonds	(0.9)	(0.8)
Finance leases	0.5	0.4
Other	0.3	0.2
Gross interest costs	46.2	46.1
Less: finance costs capitalised	(4.8)	(4.9)
Finance costs	41.4	41.2
Loan arrangement costs written off	3.2	–
Total finance costs	44.6	41.2

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 accordance with EPRA guidance, these costs have been excluded from EPRA profit and earnings.

Finance costs of £4.8m (2012: £4.9m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid during 2013 were £37.1m (2012: £38.2m) of which £4.8m (2012: £4.9m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

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

9 Financial derivative termination costs

In July 2013, the Group terminated, deferred and re-couponed interest rate swaps with a principal amount of £190m at a cost of £12.9m. During the year, the Group also incurred costs of £0.8m deferring the start date of an interest rate swap with a principal amount of £65m.

In 2012, the Group incurred costs of £6.3m terminating two interest rate swaps with a principal amount of £130m and incurred costs of £0.6m breaking an interest rate swap with a principal amount of £65m.

10 Share of results of joint ventures

	2013 £m	2012 £m
Revaluation (deficit)/surplus	(0.3)	0.3
Other profit from operations after tax	1.1	0.8
	0.8	1.1

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

11 Profit before tax

	2013 £m	2012 £m
This is arrived at after charging:		
Depreciation and amortisation	0.4	0.4
Contingent rent payable under property finance leases	0.4	0.5
Auditor's remuneration		
Audit – Group	0.2	0.2
Audit – subsidiaries	0.1	0.1

12 Directors' emoluments

	2013 £m	2012 £m
Remuneration for management services	**6.1**	5.5
Non-executive Directors' remuneration	**0.5**	0.5
Gain on exercise of share options	**5.3**	3.8
Pension contributions	**0.5**	0.5
	12.4	10.3
National insurance contributions	**1.6**	1.4
	14.0	11.7

Included within the figures shown in note 13 below are amounts recognised in the Group income statement, in accordance with IFRS 2 Share-based Payment, relating to the Directors. These are expenses of £3.5m (2012: £3.3m) relating to equity-settled share options and deferred bonus shares and £0.3m (2012: £0.7m) relating to cash-settled share options.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 92 to 109. The only key management personnel are the Directors.

13 Employees

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Staff costs, including those of Directors:				
Wages and salaries	**13.6**	12.3	**13.4**	12.2
Social security costs	**1.9**	1.9	**1.9**	1.8
Pension costs	**1.7**	1.5	**1.7**	1.5
Share-based payments expense relating to equity-settled schemes	**3.8**	3.5	**3.8**	3.5
Movement in valuation of cash-settled share options	**0.3**	0.6	**–**	–
National insurance contributions relating to cash-settled schemes	**–**	0.1	**–**	–
Share-based payments expense relating to cash-settled schemes	**0.3**	0.7	**–**	–
	21.3	19.9	**20.8**	19.0

The average number of employees in the Group during the year, excluding Directors, was 87 (2012: 83). The average number of employees in the Company during the year, excluding Directors, was 83 (2012: 79). All were employed in administrative roles. In addition, there were a further 12 Group employees (2012: 13) whose costs were recharged to tenants.

14 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 92 to 109, other than the employee share plan that is detailed below.

Group and Company – equity-settled option scheme

This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 92 to 109. The Directors are not entitled to any awards under this scheme.

	Exercise price £	Date from which exercisable	Expiry date	Number of options
	6.10	18/03/2012	17/03/2019	57,500
	13.20	18/03/2013	17/03/2020	53,000
	16.60	25/03/2014	24/03/2021	86,500
Outstanding at 1 January 2012				197,000
Options granted during the year	17.19	12/04/2015	11/04/2022	99,750
Options exercised	6.10			(45,575)
Options lapsed	13.20			(3,000)
Options lapsed	16.60			(3,000)
Options lapsed during the year				(6,000)
Outstanding at 31 December 2012				245,175
Options granted during the year	21.99	10/04/2016	09/04/2023	95,500
Options exercised	6.10			(2,405)
Options exercised	13.20			(26,160)
Options lapsed	13.20			(2,000)
Options lapsed	16.60			(2,250)
Options lapsed	17.19			(3,500)
Options lapsed during the year				(7,750)
Outstanding at 31 December 2013				**304,360**

	31 December 2013	31 December 2012	1 January 2012
Number of shares:			
Exercisable	**31,360**	11,925	–
Non-exercisable	**273,000**	233,250	197,000
Weighted average exercise price of share options:			
Exercisable	**£11.04**	£6.10	–
Non-exercisable	**£18.69**	£16.12	£12.62
Weighted average remaining contracted life of share options:			
Exercisable	**6.05 years**	6.21 years	–
Non-exercisable	**8.32 years**	8.46 years	8.37 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**–**	–	–
Non-exercisable	**£15.99**	£14.90	£11.40

The weighted average share price of options exercised during 2013 was £23.50 (2012: £18.52).

The following information is relevant in the determination of the fair value of the options granted during 2012 and 2013 under the equity-settled employee share plan operated by the Group.

	2013	2012
Option pricing model used	**Binomial lattice**	Binomial lattice
Risk-free interest rate	**0.8%**	0.7%
Volatility	**25.0%**	41.0%
Dividend yield	**1.5%**	1.8%

For both the 2013 and 2012 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

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

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

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31 December 2013 of £24.95 (2012: £21.06) and a dividend yield of 1.4% (2012: 1.5%) were used together with a risk-free interest rate of 0.3% (2012: 0.3%).

An assumption of zero employee turnover has been made and a volatility assumption of 17% pa has been used for options with expected terms of one year, which now covers all outstanding awards (2012: 18% pa).

In general, the value of an option is affected by how quickly employees are assumed to exercise their awards after vesting. In this case, however, given the other assumptions, the share price at 31 December 2013, and the fact that the expected lives of the options are relatively short, the fair values are not sensitive to this assumption. It has been assumed that employees try to maximise their returns and therefore do not exercise their options immediately.

15 Pension costs

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

Defined contribution plan

The total expense relating to this plan in the current year was £1.3m (2012: £1.2m).

Defined benefit plan

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

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 5.2% pa (2012: 5.4% pa) and that salaries will be increased at 5.0% pa (2012: 4.4% pa). The market value of assets of the scheme at 31 December 2013 was £12.2m (2012: £12.0m) and the actuarial value of those assets on an ongoing basis represented 110% (2012: 102%) of the benefit of £11.1m (2012: £11.8m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.8m (2012: £0.2m). The Group paid a deficit reduction contribution of £0.5m during the year (2012: £0.5m) and £0.1m (2012: £0.1m) of normal pension contributions.

Amounts included in the balance sheet

	2013 £m	2012 £m	2011 £m
Fair value of plan assets	**12.2**	12.0	13.2
Present value of defined benefit obligation	**(11.1)**	(11.8)	(14.7)
Surplus/(deficit) in scheme	**1.1**	0.2	(1.5)
Impact of asset ceiling	**(0.3)**	–	–
Net asset/(liability)	**0.8**	0.2	(1.5)

The present value of the plan liabilities is measured by discounting the best estimate of the future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is reflected in the net asset/(liability) in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of the disclosures, allowance has been made for future statutory revaluation of benefits up to retirement for deferred pensioners but not for active members. At the balance sheet date the accumulated benefit obligation was £11.1m (2012: £11.8m).

All actuarial gains and losses are recognised in other comprehensive income in the year in which they occur.

Reconciliation of the impact of the asset ceiling

	2013 £m	2012 £m
Actuarial losses on asset ceiling	**0.3**	–
Impact of asset ceiling at end of the year	**0.3**	–

The Group has reviewed the implications of the guidance provided by IFRIC14 IAS 19 Limit on Defined Benefit Asset and concluded that it is not necessary to make any adjustments to the IAS19 figures in respect of an asset ceiling or minimum funding requirement at 31 December 2013. The maximum economic benefit available is entirely in the form of a reduction in future contributions.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2013 £m	2012 £m
At 1 January	**11.8**	14.7
Current service cost	**0.1**	0.1
Interest cost	**0.5**	0.6
Actuarial losses due to scheme experience	**–**	0.5
Actuarial gains due to changes in demographic assumptions	**–**	(1.1)
Actuarial losses/(gains) due to changes in financial assumptions	**0.3**	(0.4)
Benefits paid, death in service premiums and expenses	**(1.6)**	(2.6)
At 31 December	**11.1**	11.8

There have been no plan amendments, curtailments or settlements in the year.

Reconciliation of opening and closing values of the fair value of plan assets

	2013 £m	2012 £m
At 1 January	**12.0**	13.2
Interest income	**0.5**	0.6
Return on plan assets (excluding amounts included in interest income)	**0.7**	0.3
Contributions by the Group	**0.6**	0.5
Benefits paid, death in service premiums and expenses	**(1.6)**	(2.6)
At 31 December	**12.2**	12.0

The actual return on the plan assets over the year was £1.2m (2012: £0.9m).

The expected return on the assets at 31 December 2012 was 5.2%. This compares to the discount rate of 4.7% used in the calculation of the interest income for the year ended 31 December 2013.

Defined benefit costs recognised in the income statement

	2013 £m	2012 £m
Current service cost	**0.1**	0.1
Defined benefit costs recognised in profit or loss	**0.1**	0.1

Amounts recognised in other comprehensive income

	2013 £m	2012 £m
Gain on plan assets (excluding amounts recognised in net interest cost)	**0.7**	0.3
Experience losses arising on the defined benefit obligation	**–**	(0.5)
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	**–**	1.0
(Loss)/gain from changes in the financial assumptions underlying the present value of the defined benefit obligation	**(0.4)**	0.4
Gain from total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	**0.3**	1.2
Loss from the effect of the asset ceiling	**(0.3)**	–
Total gain recognised in other comprehensive income	**–**	1.2

Fair value of plan assets

	2013 £m	2012 £m	2011 £m
UK equities	**0.5**	0.1	1.2
Overseas equities	**0.6**	0.1	1.1
Corporate bonds	**–**	–	0.3
Government bonds	**2.4**	2.6	1.9
Cash	**0.6**	0.7	1.4
Other	**8.1**	8.5	7.3
Total assets	**12.2**	12.0	13.2

None of the fair values of the assets shown above include any directly held financial instruments of the Group or property occupied by, or other assets used by, the Group. All of the scheme assets have a quoted market price in an active market (with the exception of the trustees' bank account balance) representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2013.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2013 £m	2012 £m	2011 £m
Discount rate	**4.6**	4.7	4.7
Inflation (RPI)	**3.5**	2.9	3.1
Salary increases	**5.0**	4.4	4.6
Allowance for commutation of pension for cash at retirement	**75% of Post A Day Pension**	75% of Post A Day Pension	No allowance

Given the sustained low level of discount rate and the fact that the pension increases are all fixed, the assumption for commutation has become material.

15 Pension costs (continued)

	Life expectancy at age 65 Years
Male retiring in 2013	23.5
Female retiring in 2013	25.9
Male retiring in 2033	25.4
Female retiring in 2033	27.8

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% pa	Increase by 6.2%
Inflation (RPI)	Increase of 0.25% pa	Increase by 0.2%
Salary increases	Increase of 0.25% pa	Increase by 0.2%
Rate of mortality	Increase in life expectancy of one year	Increase by 2.6%
Allowance for commutation of pension for cash at retirement	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 1.2%

The sensitivities shown above are approximate, and each one considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth. The average duration of the defined benefit obligation at the year ended 31 December 2013 is 25 years.

The plan typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would detrimentally impact the balance sheet position and may give rise to increased charges in the future. This effect would be partially offset by an increase in the plan's bond holdings, and in qualifying death in service insurance policies that cover the mortality risk.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2014 is £0.6m.

16 Tax charge/(credit)

	2013 £m	2012 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**0.8**	0.6
Other adjustments in respect of prior years' tax	**0.2**	0.2
Corporation tax charge	**1.0**	0.8
Deferred tax		
Origination and reversal of temporary differences	**1.3**	(5.1)
Adjustment for changes in estimates	**0.1**	(0.3)
Deferred tax charge/(credit)	**1.4**	(5.4)
Tax charge/(credit)	**2.4**	(4.6)

In addition to the tax charge of £2.4m (2012: credit of £4.6m) that passed through the Group income statement, a deferred tax charge of £0.1m (2012: credit of £0.3m) was recognised in the Group statement of comprehensive income relating to revaluation of the owner-occupied property.

The effective rate of tax for 2013 is lower (2012: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £m	2012 £m
Profit before tax	**467.9**	228.1
Expected tax charge based on the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)[1]	**108.8**	55.9
Difference between tax and accounting profit on disposals	**(15.0)**	(1.1)
REIT exempt income	**(11.0)**	(5.6)
Revaluation surplus attributable to REIT properties	**(78.0)**	(42.3)
Expenses and fair value adjustments not allowable for tax purposes	**(1.8)**	(4.7)
Capital allowances	**(3.9)**	(3.3)
Origination and reversal of temporary differences	**1.3**	(5.1)
Other differences	**1.8**	1.4
Tax charge/(credit) in respect of profit for the year	**2.2**	(4.8)
Adjustments in respect of prior years' tax	**0.2**	0.2
	2.4	(4.6)

[1] The expected tax rate for 2013 has been changed in line with the 2013 Finance Act.

17 EPRA performance measures

Summary table

	2013		2012	
		Pence per share p		Pence per share p
EPRA earnings	**£55.1m**	**53.87**	£51.3m	50.36
EPRA adjusted net asset value	**£2,509.9m**	**2,264**	£1,933.9m	1,886
EPRA triple net asset value	**£2,463.2m**	**2,222**	£1,809.0m	1,764
EPRA vacancy rate	**1.0%**		1.6%	
EPRA cost ratio (including direct vacancy costs)	**25.1%**		25.2%	
EPRA net initial yield	**4.2%**		4.3%	
EPRA 'topped-up' net initial yield	**4.8%**		4.8%	

The definition of these measures can be found on page 166.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2013 '000	2012 '000	**2013 '000**	2012 '000
For use in basic measures	**102,284**	101,859	**102,478**	102,014
Dilutive effect of convertible bonds	**9,848**	7,876	**7,876**	–
Dilutive effect of share-based payments	**486**	500	**500**	523
For use in measures for which bond conversion is dilutive	**112,618**	110,235	**110,854**	102,537
Less dilutive effect of convertible bonds	**(9,848)**	(7,876)	**(7,876)**	–
For use in other diluted measures	**102,770**	102,359	**102,978**	102,537

The £175m unsecured convertible bonds 2016 ('2016 bonds') and £150m unsecured convertible bonds 2019 ('2019 bonds') have initial conversion prices set at £22.22 and £33.35, respectively. The dilutive effect of these shares is required to be recognised in accordance with IAS 33 Earnings per Share. The shares are not recognised in the calculations if they are anti-dilutive. For 2013 and 2012, the shares created by the conversion of the 2016 bonds are dilutive for unadjusted earnings per share but anti-dilutive for EPRA and underlying earnings per share. They are dilutive for NAV and EPRA NAV per share in 2013 but anti-dilutive for all NAV measures in 2012. 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. For 2013, the shares created by the conversion of the 2019 bonds, issued in 2013, are dilutive for unadjusted earnings per share but anti-dilutive for EPRA and underlying earnings per share and all NAV per share measures.

Profit before tax, earnings and earnings per share

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2013		464.8		412.72
Interest effect of dilutive convertible bonds		(8.2)		
Undiluted profit/earnings	467.9	456.6	446.40	
Adjustment for:				
Disposal of properties	(53.5)	(53.5)		
Group revaluation surplus	(335.6)	(334.3)		
Joint venture revaluation deficit	0.3	0.3		
Fair value movement in derivative financial instruments	(38.5)	(38.5)		
Financial derivative termination costs	13.7	13.7		
Loan arrangement costs written off	3.2	3.2		
Movement in valuation of cash-settled share options	0.3	0.3		
Minority interests in respect of the above	–	7.3		
EPRA and underlying	**57.8**	**55.1**	**53.87**	**53.61**
Diluted earnings for year ended 31 December 2012		233.5		211.82
Interest effect of dilutive convertible bonds		(6.6)		
Undiluted profit/earnings	228.1	226.9	222.76	
Adjustment for:				
Disposal of properties	(6.9)	(6.9)		
Disposal of investment	(3.9)	(3.9)		
Group revaluation surplus	(174.4)	(178.8)		
Joint venture revaluation surplus	(0.3)	(0.3)		
Fair value movement in derivative financial instruments	2.4	2.4		
Financial derivative termination costs	6.9	6.9		
Movement in valuation of cash-settled share options	0.6	0.6		
Minority interests in respect of the above	–	4.4		
EPRA	52.5	51.3	50.36	50.12
Foreign exchange gain	(0.3)	(0.3)		
Rates credits	(0.3)	(0.3)		
Underlying	51.9	50.7	49.77	49.53

17 EPRA performance measures (continued)

Net asset value and net asset value per share

	£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 properties	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 2026	(24.0)		
Mark-to-market of fixed rate secured loan 2024	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**
Adjustments 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	
At 31 December 2012			
Net assets attributable to equity shareholders	1,860.4	1,824	1,814
Adjustment for:			
Deferred tax on revaluation surplus	4.1		
Fair value of derivative financial instruments	54.3		
Fair value adjustment to secured bonds	17.8		
Minority interest in respect of the above	(2.7)		
EPRA net asset value	1,933.9	1,896	1,886
Adjustment for:			
Deferred tax on revaluation surplus	(4.1)		
Fair value of derivative financial instruments	(54.3)		
Mark-to-market of unsecured bonds 2016	(20.0)		
Mark-to-market of secured bonds 2026	(39.0)		
Mark-to-market of fixed rate secured loan 2024	1.0		
Unamortised issue and arrangement costs[1]	(11.2)		
Minority interest in respect of the above	2.7		
EPRA triple net asset value	1,809.0	1,773	1,764

[1] Following a review of the components of EPRA triple net asset value, the unamortised issue and arrangement costs have been excluded from this figure for 2013. Accordingly, the 2012 figures have been amended to provide a comparative basis.

Vacancy rate

	2013 £m	2012 £m
Annualised estimated rental value of vacant premises	**1.5**	2.1
Portfolio estimated rental value	**198.9**	175.0
Less non-EPRA properties[1]	**(47.8)**	(44.1)
	151.1	130.9
EPRA vacancy rate	**1.0%**	1.6%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Cost ratio

	2013 £m	2012 £m
Administrative expenses	**26.4**	24.5
Other property costs	**6.9**	8.6
Dilapidation receipts	**(0.1)**	(0.5)
Net service charge costs	**1.9**	1.5
Service charge costs recovered through rents but not separately invoiced	**(0.3)**	(0.3)
Management fees received less estimated profit element	**(2.0)**	(2.5)
Share of joint ventures' expenses	**0.4**	0.4
EPRA costs (including direct vacancy costs) (A)	**33.2**	31.7
Direct vacancy costs	**(3.4)**	(5.1)
EPRA costs (excluding direct vacancy costs) (B)	**29.8**	26.6
Gross rental income	**130.9**	124.7
Ground rent	**(0.4)**	(0.5)
Service charge component of rental income	**(0.3)**	(0.3)
Share of joint ventures' rental income less ground rent	**1.9**	1.9
Adjusted gross rental income (C)	**132.1**	125.8
EPRA cost ratio (including direct vacancy costs) (A ÷ C)	**25.1%**	25.2%
EPRA cost ratio (excluding direct vacancy costs) (B ÷ C)	**22.6%**	21.1%

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)	**3,353.1**	2,859.6
Portfolio cost ratio (A ÷ D)	**1.0%**	1.1%

The Group has not capitalised any overhead or operating expenses in either 2013 or 2012.

Net initial yield and 'topped-up' net initial yield

	2013 £m	2012 £m
Property portfolio – wholly owned	**3,353.1**	2,859.6
Share of joint ventures	**21.6**	20.5
Less non-EPRA properties[1]	**(645.2)**	(583.8)
Completed property portfolio	**2,729.5**	2,296.3
Allowance for:		
Estimated purchasers' costs	**158.3**	132.0
Estimated costs to complete	**0.4**	0.5
EPRA property portfolio valuation (A)	**2,888.2**	2,428.8
Annualised contracted rental income, net of ground rents	**126.0**	119.6
Share of joint ventures	**1.9**	1.9
Less non-EPRA properties[1]	**(9.2)**	(15.0)
Add outstanding rent reviews	**2.5**	0.7
Less estimate of non-recoverable expenses	**(1.3)**	(1.6)
	(8.0)	(15.9)
Current income net of non-recoverable expenses (B)	**119.9**	105.6
Contractual rental increases across the portfolio	**30.0**	21.0
Less non-EPRA properties[1]	**(10.1)**	(9.0)
Contractual rental increases across the EPRA portfolio	**19.9**	12.0
'Topped-up' net annualised rent (C)	**139.8**	117.6
EPRA net initial yield (B ÷ A)	**4.2%**	4.3%
EPRA 'topped-up' net initial yield (C ÷ A)	**4.8%**	4.8%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

18 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Group							
Carrying value							
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**
At 1 January 2012	2,068.9	376.0	2,444.9	17.1	137.5	–	2,599.5
Acquisitions	57.1	44.4	101.5	–	–	–	101.5
Capital expenditure	63.9	13.2	77.1	–	0.4	–	77.5
Interest capitalisation	4.2	0.7	4.9	–	–	–	4.9
Additions	125.2	58.3	183.5	–	0.4	–	183.9
Disposals	(16.1)	(0.2)	(16.3)	–	(137.9)	–	(154.2)
Depreciation	–	–	–	(0.1)	–	–	(0.1)
Transfers	(17.7)	1.2	(16.5)	–	16.5	–	–
Revaluation	136.3	38.1	174.4	0.9	–	–	175.3
Movement in grossing up of headlease liabilities	–	2.6	2.6	–	–	–	2.6
At 31 December 2012	2,296.6	476.0	2,772.6	17.9	16.5	–	2,807.0

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 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**
At 31 December 2012							
Fair value	2,353.9	471.3	2,825.2	17.9	16.5	–	2,859.6
Lease incentives and costs included in receivables	(57.3)	(4.2)	(61.5)	–	–	–	(61.5)
Grossing up of headlease liabilities	–	8.9	8.9	–	–	–	8.9
Carrying value	2,296.6	476.0	2,772.6	17.9	16.5	–	2,807.0

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2013 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 properties at £3,322.8m (2012: £2,829.1m) and other valuers at £30.3m (2012: £30.5m). Of the properties revalued by CBRE, £19.7m (2012: £17.9m) relating to owner-occupied property was included within property, plant and equipment, £nil (2012: £16.5m) was included within non-current assets held for sale and £24.7m (2012: £nil) 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.

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. Any future revaluation surplus relating to the trading property will be recognised as an adjustment to EPRA net asset value, but, in accordance with IAS 2 Inventories, will not be recognised in the carrying value of the property.

Reconciliation of revaluation surplus

	2013 £m	2012 £m
Total revaluation surplus	**352.5**	183.3
Lease incentives and costs	**(13.0)**	(8.1)
Trading property revaluation surplus	**(2.1)**	–
Effect of owner-occupied property depreciation	**0.1**	0.1
IFRS revaluation surplus	**337.5**	175.3
Reported in the:		
Group income statement	**335.6**	174.4
Group statement of comprehensive income	**1.9**	0.9
	337.5	175.3

Valuation process

The external valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgment and market observation. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property.

Members of the Group's investments team, who report to the executive Director responsible for the valuation process, verify all major inputs to the external valuation reports, assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The external valuers hold meetings with the Auditor and then with the Audit Committee to discuss the valuation processes and outcome at each year end and half year end.

Valuation techniques

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 during the year.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £335.6m (2012: £174.4m) and are presented in the Group income statement in the line item 'revaluation surplus'. The revaluation surplus for the owner-occupied property of £1.9m (2012: £0.9m) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2013 and 2012 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 31 December 2013 and 31 December 2012, respectively.

18 Property portfolio (continued)

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
Valuation technique[1]	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m)	2,076.5	303.0	879.9	62.9	30.8	3,353.1
Area ('000 sq ft)	2,910	569	1,900	325	–	5,704
Range of unobservable inputs:						
Gross ERV (per sq ft pa)						
Minimum	£8	£9	£10	£11	n/a[2]	
Maximum	£77	£42	£57	£14	n/a[2]	
Weighted average	£37	£31	£36	£13	n/a[2]	
Net initial yield						
Minimum	0.0%	0.0%	0.0%	6.1%	0.0%	
Maximum	8.0%	6.6%	7.8%	12.1%	9.5%	
Weighted average	3.4%	3.7%	3.8%	6.2%	1.7%	
Reversionary yield						
Minimum	2.3%	3.5%	3.7%	6.3%	0.0%	
Maximum	9.4%	7.1%	8.4%	12.1%	11.3%	
Weighted average	4.8%	5.6%	6.1%	6.5%	2.0%	
True equivalent yield						
Minimum	2.7%	3.8%	4.1%	6.7%	0.0%	
Maximum	7.4%	7.2%	6.7%	11.8%	10.9%	
Weighted average	5.0%	5.6%	5.5%	6.8%	1.9%	

[1] 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.

[2] There is no calculation of gross ERV per sq ft pa as there is no floor area for land.

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
True equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market rate conditions. An increase in the reversionary yield may accompany an increase in gross ERV and would mitigate its impact on the fair value measurement.

Historical cost

	2013 £m	2012 £m
Investment property	**2,385.3**	2,205.8
Owner-occupied property	**7.3**	7.3
Assets held for sale	**–**	15.3
Trading property	**22.0**	–
Total property portfolio	**2,414.6**	2,228.4

19 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
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**
At 1 January 2012	17.1	1.5	0.8	19.4
Additions	–	–	0.4	0.4
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	0.9	–	–	0.9
At 31 December 2012	17.9	1.5	0.9	20.3
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**
Net book value				
Cost or valuation	17.9	1.5	2.2	21.6
Accumulated depreciation	–	–	(1.3)	(1.3)
At 31 December 2012	17.9	1.5	0.9	20.3
Company				
At 1 January 2013		0.9	0.8	1.7
Additions		–	0.5	0.5
Disposals		–	(0.1)	(0.1)
Depreciation		–	(0.3)	(0.3)
At 31 December 2012		**0.9**	**0.9**	**1.8**
At 1 January 2012		0.9	0.7	1.6
Additions		–	0.4	0.4
Depreciation		–	(0.3)	(0.3)
At 31 December 2012		0.9	0.8	1.7
Net book value				
Cost or valuation		0.9	2.5	3.4
Accumulated depreciation		–	(1.6)	(1.6)
At 31 December 2013		**0.9**	**0.9**	**1.8**
Net book value				
Cost or valuation		0.9	2.0	2.9
Accumulated depreciation		–	(1.2)	(1.2)
At 31 December 2012		0.9	0.8	1.7

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 31 December 2013 was £1.5m (2012: £1.5m) and £0.9m (2012: £0.9m) in the Company. See note 18 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

20 Investments

Group

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

	2013 £m	2012 £m
At 1 January	**10.2**	9.7
Additions	**0.1**	0.1
Distributions received	**(1.2)**	(0.7)
Share of results of joint ventures (see note 10)	**0.8**	1.1
Transfer to non-current assets held for sale	**(4.8)**	–
At 31 December	**5.1**	10.2

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

	2013 £m	2012 £m
Non-current assets	**8.0**	20.5
Current assets	**0.3**	1.3
Current liabilities	**(0.2)**	(3.4)
Non-current liabilities	**(3.0)**	(8.2)
Net assets	**5.1**	10.2
Income	**3.8**	2.9
Expenses	**(3.0)**	(1.8)
Profit for the year	**0.8**	1.1

Company

	Subsidiaries £m
Shares in subsidiaries	
At 1 January 2012	837.2
Additions	3.3
Impairment reversal	71.6
At 31 December 2012	912.1
Additions	33.6
Disposals	(3.3)
Impairment	(43.3)
At 31 December 2013	**899.1**

At 31 December 2013 and 31 December 2012, the carrying value of the investment in London Merchant Securities Ltd was reviewed in accordance with IAS 36 Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement. In the opinion of the Directors, the most appropriate estimate of the recoverable amount is the net asset value of the subsidiaries. Principally due to the dividends paid by the subsidiaries in the year, there has been a decrease in the net asset value of the subsidiaries which has been reflected as an impairment in the Company income statement of £43.3m. In 2012, there was an increase in the net asset value of the subsidiaries mainly as a result of the valuation movement in investment properties, which was reflected as an impairment reversal in the Company income statement of £71.6m. All of the impairment in 2013 and impairment reversal in 2012 related to the investment in London Merchant Securities Ltd.

21 Other receivables (non-current)

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Accrued income	**66.4**	55.5	**–**	–
Other	**5.7**	5.4	**–**	–
	72.1	60.9	**–**	–

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 £7.6m (2012: £6.0m), which was included as current assets within trade and other receivables, these amounts totalled £74.0m at 31 December 2013 (2012: £61.5m).

22 Trade and other receivables

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Trade receivables	**11.2**	8.6	**–**	–
Amounts owed by subsidiaries	**–**	–	**1,206.7**	791.3
Other receivables	**15.4**	13.3	**0.1**	0.1
Prepayments	**15.2**	14.8	**0.8**	0.4
Sales and social security taxes	**3.3**	5.9	**0.8**	0.5
Accrued income	**8.4**	8.2	**0.2**	0.1
	53.5	50.8	**1,208.6**	792.4

	2013 £m	2012 £m
Group trade receivables are split as follows:		
less than three months due	**11.1**	8.4
between three and six months due	**0.1**	0.2
	11.2	8.6

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

	2013 £m	2012 £m
At 1 January	**0.6**	0.5
Additions	**0.3**	0.3
Released	**(0.2)**	(0.2)
At 31 December	**0.7**	0.6
The provision for bad debts is split as follows:		
less than six months due	**0.5**	0.6
between six and twelve months due	**0.2**	–
	0.7	0.6

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

23 Non-current assets held for sale

	2013 £m	2012 £m
Investment properties (see note 18)	**–**	16.5
Investments	**4.8**	–
	4.8	16.5

In February 2014, the Group conditionally exchanged contracts to sell its 25% interest in the joint venture Euro Mall Sterboholy a.s. in Prague for an amount approximately equal to its carrying value. Completion of the transaction is expected during the first half of 2014.

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

As a result, this investment and these properties were recognised as non-current assets held for sale at 31 December 2013 and 31 December 2012, respectively, in accordance with IFRS 5 Non-current Assets Held for Sale. See note 18 for the historic cost of the properties included within non-current assets held for sale.

24 Trade and other payables

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Trade payables	**8.9**	7.9	**1.3**	6.1
Amounts owed to subsidiaries	**–**	–	**269.2**	89.9
Other payables	**10.5**	10.6	**0.7**	0.7
Accruals	**28.1**	25.7	**11.2**	10.9
Deferred income	**36.1**	36.3	**0.4**	0.1
	83.6	80.5	**282.8**	107.7

25 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	Onerous contract £m	National insurance on share-based payments £m	Total £m
Group					
At 1 January 2013	0.9	0.4	–	1.2	2.5
Provided in the income statement	0.3	–	–	1.0	1.3
Provided in reserves	–	0.2	–	–	0.2
Utilised in year	(0.3)	(0.4)	–	(0.9)	(1.6)
At 31 December 2013	**0.9**	**0.2**	**–**	**1.3**	**2.4**
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.2	–	0.5	0.7
	0.9	**0.2**	**–**	**1.3**	**2.4**
At 1 January 2012	1.0	–	0.3	0.8	2.1
Provided in the income statement	0.6	–	–	1.0	1.6
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	(0.7)	–	(0.3)	(0.6)	(1.6)
At 31 December 2012	0.9	0.4	–	1.2	2.5
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.4	–	0.4	0.8
	0.9	0.4	–	1.2	2.5
Company					
At 1 January 2013	–	0.4	–	1.0	1.4
Provided in the income statement	–	–	–	1.0	1.0
Provided in reserves	–	0.2	–	–	0.2
Utilised in year	–	(0.4)	–	(0.8)	(1.2)
At 31 December 2013	**–**	**0.2**	**–**	**1.2**	**1.4**
Due within one year	–	–	–	0.7	0.7
Due after one year	–	0.2	–	0.5	0.7
	–	**0.2**	**–**	**1.2**	**1.4**
At 1 January 2012	–	–	0.3	0.7	1.0
Provided in the income statement	–	–	–	0.9	0.9
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	–	–	(0.3)	(0.6)	(0.9)
At 31 December 2012	–	0.4	–	1.0	1.4
Due within one year	–	–	–	0.6	0.6
Due after one year	–	0.4	–	0.4	0.8
	–	0.4	–	1.0	1.4

The potential liability for cash-settled share options is based on the valuation carried out at each balance sheet date (see note 14). Provisions are also made for those parts of the executive Directors' bonuses which are to be deferred in shares (see report of the Remuneration Committee on pages 92 to 109).

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

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

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

26 Borrowings and derivative financial instruments

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Non-current liabilities				
2.75% unsecured convertible bonds 2016	**167.7**	165.0	**–**	–
1.125% unsecured convertible bonds 2019	**135.0**	–	**–**	–
6.5% secured bonds 2026	**190.6**	191.4	**–**	–
3.99% secured loan 2024	**81.8**	81.7	**81.8**	81.7
Secured bank loans	**97.3**	432.2	**69.3**	404.2
Unsecured bank loan	**281.1**	–	**281.1**	–
Intercompany loans	**–**	–	**302.7**	165.0
Gross debt	**953.5**	870.3	**734.9**	650.9
Leasehold liabilities	**8.2**	8.9	**–**	–
Borrowings	**961.7**	879.2	**734.9**	650.9
Derivative financial instruments expiring in greater than one year	**15.9**	54.3	**13.9**	50.2
Borrowings and derivative financial instruments	**977.6**	933.5	**748.8**	701.1
Reconciliation of borrowings to net debt:				
Borrowings	**961.7**	879.2	**734.9**	650.9
Cash and cash equivalents	**(12.5)**	(4.4)	**(10.9)**	(1.2)
Net debt	**949.2**	874.8	**724.0**	649.7

2.75% unsecured convertible bonds 2016

In June 2011 the Group issued its first convertible bond. The unsecured instrument pays a coupon of 2.75% until July 2016 or its conversion date, if earlier. In accordance with IAS 32, the equity and debt components of the bond are accounted for separately and the fair value of the debt component was determined using the market interest rate for an equivalent non-convertible bond, deemed to be 3.99%. As a result, £165.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value has been amortised through the income statement from the date of issue. Issue costs of £4.8m were allocated between equity and debt and the element relating to the debt component has been amortised over the life of the bond. The issue costs apportioned to equity of £0.2m have not been amortised. The fair value was determined by the ask-price of £122.34 per £100 as at 31 December 2013 (2012: £113.03 per £100). The carrying value at 31 December 2013 was £167.7m (2012: £165.0m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(9.6)
Debt component on issue	165.4
Unamortised issue costs	(2.3)
Amortisation of fair value adjustment	4.6
Carrying amount included in borrowings	167.7

1.125% unsecured convertible bonds 2019

In July 2013 the Group issued its second convertible bond. The unsecured instrument pays a coupon of 1.125% until July 2019 or its conversion date, if earlier. The initial conversion price was set at £33.35 per share. In accordance with IAS 32, the equity and debt components of the bond are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.67%. As a result, £137.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £12.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £3.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bond. The issue costs apportioned to equity of £0.3m have not been amortised. The fair value was determined by the ask-price of £100.48 per £100 as at 31 December 2013. The carrying value at 31 December 2013 was £135.0m.

Reconciliation of nominal value to carrying value:

	£m
Nominal value	150.0
Fair value adjustment on issue allocated to equity	(12.6)
Debt component on issue	137.4
Unamortised issue costs	(3.2)
Amortisation of fair value adjustment	0.8
Carrying amount included in borrowings	135.0

26 Borrowings and derivative financial instruments (continued)

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less issue costs. This difference between fair value and principal value is being amortised through the income statement. The fair value was determined by the ask-price of £113.72 per £100 as at 31 December 2013 (2012: £122.28 per £100). The carrying value at 31 December 2013 was £190.6m (2012: £191.4m).

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of a prevailing market gilt. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2013 was £81.8m (2012: £81.7m).

Bank borrowings

The Group refinanced the majority of its bank loans in the open market in September 2013. The margin charged on the new £550m facility is similar to the margin charged on the bank facilities not refinanced. The fair values of the Group's bank loans are therefore deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2013	**–**	**–**	**–**	**20.0**	**263.0**	**–**	**283.0**
At 31 December 2012	2.5	0.5	134.0	–	196.0	–	333.0
Company							
At 31 December 2013	**–**	**–**	**–**	**20.0**	**263.0**	**–**	**283.0**
At 31 December 2012	2.5	0.5	134.0	–	196.0	–	333.0

Long-term intercompany loans

The terms of the long-term intercompany loans in the Company mirror those of the unsecured convertible bonds 2016 and 2019. As with the bonds, debt and equity components of the intercompany loan have been accounted for separately, and the fair values of the debt components are identical to that of the bonds. The carrying value at 31 December 2013 was £302.7m (2012: £165.0m).

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2013 for the period to the contracted expiry dates.

During the year, the Group entered into a £70m forward starting interest rate swap effective 30 June 2014. The Group also has an additional £65m forward starting interest rate swap effective from 25 April 2014. These swaps are not included in the 31 December 2013 figures in the table below, but the financial impact from the effective date onwards is included in the relevant tables in this note.

The fair values of the Group's outstanding interest rate swaps have been estimated 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.

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2013						
Interest rate swaps	218.0	3.09	4.8	190.0	3.03	4.8
At 31 December 2012						
Interest rate swaps	368.0	3.60	5.8	340.0	3.61	5.7

Secured and unsecured debt

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Secured				
6.5% secured bonds 2026	**190.6**	191.4	**–**	–
3.99% secured loan 2024	**81.8**	81.7	**81.8**	81.7
Secured bank loans	**97.3**	432.2	**69.3**	404.2
	369.7	705.3	**151.1**	485.9
Unsecured				
2.75% unsecured convertible bonds 2016	**167.7**	165.0	**–**	–
1.125% unsecured convertible bonds 2019	**135.0**	–	**–**	–
Unsecured bank loan	**281.1**	–	**281.1**	–
Long-term intercompany loans	**–**	–	**302.7**	165.0
	583.8	165.0	**583.8**	165.0
Gross debt	**953.5**	870.3	**734.9**	650.9

At 31 December 2013, the Group's secured bank loans and the 3.99% secured loan 2024 were secured by a fixed charge over £380.2m (2012: £1,510.6m) and £194.8m (2012: £174.5m), respectively, of the Group's properties. In addition, the 2026 bonds were secured by a floating charge over a number of the Group's subsidiary companies which contain £634.1m (2012: £521.0m) of the Group's properties.

At 31 December 2013, the Company's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £268.2m (2012: £1,409.0m) and £194.8m (2012: £174.5m), respectively, of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2013 and 2012, the Group's fixed rate and hedged debt included the secured bonds 2026, the unsecured convertible bonds 2016, a secured loan 2024 and the hedged bank debt. Additionally, at 31 December 2013, it also comprised additional unsecured convertible bonds maturing in 2019 which were issued during the year. At 31 December 2013 and 31 December 2012, the Company's fixed rate debt comprised the instruments used to hedge its floating rate debt and the long-term intercompany loans.

Interest rate exposure

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average interest rate %	Weighted average life Years
Group						
At 31 December 2013						
2.75% unsecured convertible bonds 2016[1]	–	–	167.7	167.7	3.99	2.5
1.125% unsecured convertible bonds 2019[2]	–	–	135.0	135.0	2.67	5.6
6.5% secured bonds 2026[1]	–	–	190.6	190.6	6.50	12.2
3.99% secured loan 2024	–	–	81.8	81.8	3.99	10.8
Secured bank loans	–	97.3	–	97.3	4.63	4.1
Unsecured bank loan	163.6	117.5	–	281.1	3.32	4.7
	163.6	214.8	575.1	953.5	4.10	6.3
At 31 December 2012						
2.75% unsecured convertible bonds 2016[1]	–	–	165.0	165.0	3.99	3.5
6.5% secured bonds 2026[1]	–	–	191.4	191.4	6.50	13.2
3.99% secured loan 2024	–	–	81.7	81.7	3.99	11.8
Secured bank loans	64.2	368.0	–	432.2	4.77	3.1
	64.2	368.0	438.1	870.3	4.88	6.1
Company						
At 31 December 2013						
3.99% secured loan 2024	–	–	81.8	81.8	3.99	10.8
Secured bank loan	–	69.3	–	69.3	4.74	4.0
Unsecured bank loan	163.6	117.5	–	281.1	3.32	4.7
Intercompany loans	–	–	302.7	302.7	3.38	3.9
	163.6	186.8	384.5	734.9	3.55	5.0
At 31 December 2012						
3.99% secured loan 2024	–	–	81.7	81.7	3.99	11.8
Secured bank loans	64.2	340.0	–	404.2	4.79	3.0
Intercompany loan	–	–	165.0	165.0	3.99	3.5
	64.2	340.0	246.7	650.9	4.48	4.2

[1] The weighted average costs of debt for the secured bonds and the unsecured convertible bonds 2016 are based on the nominal amounts of £175m.
[2] The weighted average cost of debt for the unsecured convertible bonds 2019 is based on the nominal amount of £150m.

26 Borrowings and derivative financial instruments (continued)

Anticipated undiscounted cash outflows

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

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2013							
2.75% unsecured convertible bonds 2016	–	–	175.0	–	–	–	175.0
1.125% unsecured convertible bonds 2019	–	–	–	–	–	150.0	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loans	–	–	–	70.0	28.0	–	98.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Total on maturity	–	–	175.0	70.0	315.0	408.0	968.0
Leasehold liabilities	0.5	0.5	0.5	0.5	0.5	62.3	64.8
Interest on gross debt	30.8	33.8	34.9	34.4	27.7	102.1	263.7
Effect of interest rate swaps	6.7	5.2	2.2	0.1	(0.7)	(0.7)	12.8
Gross loan commitments	**38.0**	**39.5**	**212.6**	**105.0**	**342.5**	**571.7**	**1,309.3**
At 31 December 2012							
2.75% unsecured convertible bonds 2016	–	–	–	175.0	–	–	175.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loans	–	124.5	91.0	–	194.0	28.0	437.5
Total on maturity	–	124.5	91.0	175.0	194.0	286.0	870.5
Leasehold liabilities	0.7	0.7	0.7	0.7	0.7	62.6	66.1
Interest on gross debt	19.1	18.9	19.2	17.6	14.7	108.6	198.1
Effect of interest rate swaps	13.2	13.8	12.5	10.2	8.1	7.2	65.0
Gross loan commitments	33.0	157.9	123.4	203.5	217.5	464.4	1,199.7

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
At 31 December 2013						
Maturing in:						
< 1 year	38.0	(30.8)	(6.7)	(0.5)	–	–
1 to 2 years	39.5	(33.8)	(5.2)	(0.5)	–	–
2 to 3 years	212.6	(34.9)	(2.2)	(0.5)	(7.3)	167.7
3 to 4 years	105.0	(34.4)	(0.1)	(0.5)	(0.6)	69.4
4 to 5 years	342.5	(27.7)	0.7	(0.5)	(6.0)	309.0
> 5 years	571.7	(102.1)	0.7	(54.1)	(0.6)	415.6
	1,309.3	**(263.7)**	**(12.8)**	**(56.6)**	**(14.5)**	**961.7**
At 31 December 2012						
Maturing in:						
< 1 year	33.0	(19.1)	(13.2)	(0.7)	–	–
1 to 2 years	157.9	(18.9)	(13.8)	(0.7)	(0.3)	124.2
2 to 3 years	123.4	(19.2)	(12.5)	(0.7)	(1.2)	89.8
3 to 4 years	203.5	(17.6)	(10.2)	(0.7)	(10.0)	165.0
4 to 5 years	217.5	(14.7)	(8.1)	(0.7)	(3.8)	190.2
> 5 years	464.4	(108.6)	(7.2)	(53.7)	15.1	310.0
	1,199.7	(198.1)	(65.0)	(57.2)	(0.2)	879.2

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2013							
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loan	–	–	–	70.0	–	–	70.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Long-term intercompany loans	–	–	175.0	–	–	150.0	325.0
Total on maturity	–	–	175.0	70.0	287.0	233.0	765.0
Interest on debt	18.9	21.8	22.6	22.0	15.8	20.2	121.3
Effect of interest rate swaps	5.9	4.6	1.9	(0.1)	(0.8)	(0.7)	10.8
Gross loan commitments	**24.8**	**26.4**	**199.5**	**91.9**	**302.0**	**252.5**	**897.1**
At 31 December 2012							
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loans	–	124.5	91.0	–	194.0	–	409.5
Long-term intercompany loan	–	–	–	175.0	–	–	175.0
Total on maturity	–	124.5	91.0	175.0	194.0	83.0	667.5
Interest on debt	7.5	7.4	7.5	5.9	2.9	17.0	48.2
Effect of interest rate swaps	12.4	13.0	11.7	9.5	7.5	6.7	60.8
Gross loan commitments	19.9	144.9	110.2	190.4	204.4	106.7	776.5

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Company						
At 31 December 2013						
Maturing in:						
< 1 year	24.8	(18.9)	(5.9)	–	–	–
1 to 2 years	26.4	(21.8)	(4.6)	–	–	–
2 to 3 years	199.5	(22.6)	(1.9)	–	(7.3)	167.7
3 to 4 years	91.9	(22.0)	0.1	–	(0.6)	69.4
4 to 5 years	302.0	(15.8)	0.8	–	(5.9)	281.1
> 5 years	252.5	(20.2)	0.7	–	(16.3)	216.7
	897.1	**(121.3)**	**(10.8)**	**–**	**(30.1)**	**734.9**
At 31 December 2012						
Maturing in:						
< 1 year	19.9	(7.5)	(12.4)	–	–	–
1 to 2 years	144.9	(7.4)	(13.0)	–	(0.3)	124.2
2 to 3 years	110.2	(7.5)	(11.7)	–	(1.2)	89.8
3 to 4 years	190.4	(5.9)	(9.5)	–	(10.0)	165.0
4 to 5 years	204.4	(2.9)	(7.5)	–	(3.8)	190.2
> 5 years	106.7	(17.0)	(6.7)	–	(1.3)	81.7
	776.5	(48.2)	(60.8)	–	(16.6)	650.9

26 Borrowings and derivative financial instruments (continued)

Derivative financial instruments cash flows

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

	2013 Receivable £m	2013 Payable £m	2012 Receivable £m	2012 Payable £m
Group				
Maturing in:				
< 1 year	**2.4**	**(9.1)**	2.3	(15.5)
1 to 2 years	**5.6**	**(10.8)**	2.7	(16.6)
2 to 3 years	**8.6**	**(10.8)**	3.8	(16.3)
3 to 4 years	**10.0**	**(10.1)**	4.8	(14.9)
4 to 5 years	**8.1**	**(7.4)**	6.0	(14.1)
> 5 years	**7.6**	**(6.9)**	10.9	(18.1)
Gross contractual cash flows	**42.3**	**(55.1)**	30.5	(95.5)
Company				
Maturing in:				
< 1 year	**2.2**	**(8.1)**	2.1	(14.5)
1 to 2 years	**5.2**	**(9.8)**	2.6	(15.6)
2 to 3 years	**7.9**	**(9.8)**	3.6	(15.3)
3 to 4 years	**9.2**	**(9.1)**	4.4	(13.9)
4 to 5 years	**7.2**	**(6.4)**	5.6	(13.1)
> 5 years	**7.4**	**(6.7)**	10.2	(16.9)
Gross contractual cash flows	**39.1**	**(49.9)**	28.5	(89.3)

Financial instruments – risk management

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

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

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 28 to 32 and page 83.

Other than the refinancing of certain secured bank loans with new unsecured bank loans, and the convertible bonds 2019, there have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

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

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank, trade and other payables, floating rate bank loans, a fixed rate loan, 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 quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 22.

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

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

Fair value and cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2013, the proportion of fixed debt held by the Group was 83%. During both 2013 and 2012, the Group's borrowings at variable rate were denominated in sterling.

The Group monitors the interest rate exposure on a regular basis. A sensitivity analysis was performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates and this would result in an increase of £0.8m (2012: £0.3m) or a decrease of £0.8m (2012: £0.3m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in this note). 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 are spread across a range of banks so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2013, the Group's strategy, which was unchanged from 2012, was to maintain the NAV gearing below 80% in normal circumstances. The four gearing ratios are defined on page 166 and are derived in note 28.

27 Financial assets and liabilities

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	12.5	–	12.5
Other assets – current[1]	–	35.0	–	35.0
	–	47.5	–	47.5
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(167.7)	(167.7)
1.125% unsecured convertible bonds 2019	–	–	(135.0)	(135.0)
6.5% secured bonds 2026	–	–	(190.6)	(190.6)
3.99% secured loan 2024	–	–	(81.8)	(81.8)
Bank borrowings due after one year	–	–	(378.4)	(378.4)
Leasehold liabilities	–	–	(8.2)	(8.2)
Derivative financial instruments	(15.9)	–	–	(15.9)
Other liabilities – current[2]	–	–	(47.5)	(47.5)
	(15.9)	–	(1,009.2)	(1,025.1)
At 31 December 2013	**(15.9)**	**47.5**	**(1,009.2)**	**(977.6)**
Financial assets				
Cash and cash equivalents	–	4.4	–	4.4
Other assets – current[1]	–	30.1	–	30.1
	–	34.5	–	34.5
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(165.0)	(165.0)
6.5% secured bonds 2026	–	–	(191.4)	(191.4)
3.99% secured loan 2024	–	–	(81.7)	(81.7)
Bank borrowings due after one year	–	–	(432.2)	(432.2)
Leasehold liabilities	–	–	(8.9)	(8.9)
Derivative financial instruments	(54.3)	–	–	(54.3)
Other liabilities – current[2]	–	–	(44.2)	(44.2)
	(54.3)	–	(923.4)	(977.7)
At 31 December 2012	(54.3)	34.5	(923.4)	(943.2)
Company				
Financial assets				
Cash and cash equivalents	–	10.9	–	10.9
Other assets – current[1]	–	1,207.0	–	1,207.0
	–	1,217.9	–	1,217.9
Financial liabilities				
3.99% secured loan 2024	–	–	(81.8)	(81.8)
Bank borrowings due after one year	–	–	(350.4)	(350.4)
Long-term intercompany loans	–	–	(302.7)	(302.7)
Derivative financial instruments	(13.9)	–	–	(13.9)
Other liabilities – current[2]	–	(269.2)	(13.2)	(282.4)
	(13.9)	(269.2)	(748.1)	(1,031.2)
At 31 December 2013	**(13.9)**	**948.7**	**(748.1)**	**186.7**
Financial assets				
Cash and cash equivalents	–	1.2	–	1.2
Other assets – current[1]	–	791.5	–	791.5
	–	792.7	–	792.7
Financial liabilities				
3.99% secured loan 2024	–	–	(81.7)	(81.7)
Bank borrowings due after one year	–	–	(404.2)	(404.2)
Long-term intercompany loan	–	–	(165.0)	(165.0)
Derivative financial instruments	(50.2)	–	–	(50.2)
Other liabilities – current[2]	–	(89.9)	(17.7)	(107.6)
	(50.2)	(89.9)	(668.6)	(808.7)
At 31 December 2012	(50.2)	702.8	(668.6)	(16.0)

[1] Other assets includes all amounts shown as trade and other receivables in note 22 except prepayments and sales and social security taxes of £18.5m (2012: £20.7m) for the Group and £1.6m (2012: £0.9m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] Other liabilities for the Group include all amounts shown as trade and other payables in note 24 except deferred income of £36.1m (2012: £36.3m) and £0.4m (2012: £0.1m) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to borrowings and derivative financial instruments

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Net financial assets and liabilities	**(977.6)**	(943.2)	**186.7**	(16.0)
Other assets – current	**(35.0)**	(30.1)	**(1,207.0)**	(791.5)
Other liabilities – current	**47.5**	44.2	**282.4**	107.6
Cash and cash equivalents	**(12.5)**	(4.4)	**(10.9)**	(1.2)
Borrowings and derivative financial instruments	**(977.6)**	(933.5)	**(748.8)**	(701.1)

Fair value measurement

IFRS 13 Fair Value Measurement requires a quantitative analysis of fair values based on a three-level hierarchy.

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 26.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2013					
2.75% unsecured convertible bonds 2016	(167.7)	(204.5)	–	–	Level 1
1.125% unsecured convertible bonds 2019	(135.0)	(138.1)	–	–	Level 1
6.5% secured bonds 2026	(190.6)	(199.0)	–	–	Level 1
3.99% secured loan 2024	(81.8)	(74.3)	(81.8)	(74.3)	Level 2
Bank borrowings due after one year	(378.4)	(385.0)	(350.4)	(356.9)	Level 2
Long-term intercompany loan	–	–	(302.7)	(342.6)	Level 2
Derivative financial instruments	(15.9)	(15.9)	(13.9)	(13.9)	Level 2
	(969.4)	(1,016.8)	(748.8)	(787.7)	
Amounts not fair valued:					
Cash and cash equivalents	12.5		10.9		
Other assets – current	35.0		1,207.0		
Leasehold liabilities	(8.2)		–		
Other liabilities – current	(47.5)		(282.4)		
Net financial assets and liabilities	**(977.6)**		**186.7**		
At 31 December 2012					
2.75% unsecured convertible bonds 2016	(165.0)	(188.2)	–	–	Level 1
6.5% secured bonds 2026	(191.4)	(214.0)	–	–	Level 1
3.99% secured loan 2024	(81.7)	(82.0)	(81.7)	(82.0)	Level 2
Bank borrowings due after one year	(432.2)	(437.5)	(404.2)	(409.5)	Level 2
Long-term intercompany loan	–	–	(165.0)	(188.2)	Level 2
Derivative financial instruments	(54.3)	(54.3)	(50.2)	(50.2)	Level 2
	(924.6)	(976.0)	(701.1)	(729.9)	
Amounts not fair valued:					
Cash and cash equivalents	4.4		1.2		
Other assets – current	30.1		791.5		
Leasehold liabilities	(8.9)		–		
Other liabilities – current	(44.2)		(107.6)		
Net financial assets and liabilities	(943.2)		(16.0)		

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2013 or 2012.

28 Gearing

NAV gearing

	2013 £m	2012 £m
Net debt	**949.2**	874.8
Net assets	**2,370.5**	1,918.0
NAV gearing	**40.0%**	45.6%

28 Gearing (continued)

Loan-to-value ratio

	2013 £m	2012 £m
Net debt	**949.2**	874.8
Fair value adjustment of secured bonds	**(16.9)**	(17.8)
Unamortised issue and arrangement costs	**14.6**	11.2
Leasehold liabilities	**(8.2)**	(8.9)
Drawn debt	**938.7**	859.3
Fair value of property portfolio	**3,353.1**	2,859.6
Loan-to-value ratio	**28.0%**	30.0%

Gross interest cover ratio

	2013 £m	2012 £m
Gross property income	**131.6**	124.8
Surrender premiums	**(1.6)**	(0.3)
Ground rent	**(0.9)**	(0.9)
Gross rental income net of ground rent	**129.1**	123.6
Finance income	**(0.2)**	(0.4)
Finance costs	**41.4**	41.2
	41.2	40.8
Adjustments for:		
Foreign exchange gain	**–**	0.3
Net interest received on defined benefit pension scheme asset	**–**	0.1
Finance lease costs	**(0.5)**	(0.4)
Amortisation of fair value adjustment to secured bonds	**0.9**	0.8
Amortisation of issue and arrangement costs	**(3.2)**	(3.1)
Non-utilisation fees	**(2.8)**	(3.3)
Net interest payable	**35.6**	35.2
Gross interest cover ratio	**363%**	351%

The calculation of the gross interest cover ratio above is shown as a comparative for prior years. This will be the last year the calculation is shown on this basis. In future, the Group will present a net interest cover ratio calculation, as set out below, which is on the same basis as the financial covenant in the recent unsecured debt refinancing.

Net interest cover ratio

	2013 £m	2012 £m
Net property and other income	**124.3**	117.0
Other income	**(2.0)**	(2.5)
Net surrender premiums received	**(0.7)**	(0.1)
Reverse surrender premiums	**0.2**	0.2
Adjusted net property income	**121.8**	114.6
Finance income	**(0.2)**	(0.4)
Finance costs	**41.4**	41.2
	41.2	40.8
Adjustments for:		
Finance income	**0.2**	0.4
Other finance costs	**(0.3)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**0.9**	0.8
Amortisation of issue and arrangement costs	**(3.2)**	(3.1)
Finance costs capitalised	**4.8**	4.9
Net interest payable	**43.6**	43.6
Net interest cover ratio	**279%**	263%

29 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2013	4.1	(4.6)	(0.5)
Provided during the year in other comprehensive income	0.2	–	0.2
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
Provided/(released) during the year in the income statement	1.6	(0.3)	1.3
Change in tax rates in the income statement	(0.3)	0.4	0.1
At 31 December 2013	**5.5**	**(4.5)**	**1.0**
At 1 January 2012	8.8	(3.6)	5.2
Released during the year in other comprehensive income	(0.2)	–	(0.2)
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
Released during the year in the income statement	(3.8)	(1.3)	(5.1)
Change in tax rates in the income statement	(0.6)	0.3	(0.3)
At 31 December 2012	4.1	(4.6)	(0.5)
Company			
At 1 January 2013	–	(4.3)	(4.3)
Provided during the year in the income statement	–	(0.4)	(0.4)
Change in tax rates	–	0.4	0.4
At 31 December 2013	**–**	**(4.3)**	**(4.3)**
At 1 January 2012	–	(3.3)	(3.3)
Provided during the year in the income statement	–	(1.3)	(1.3)
Change in tax rates in the income statement	–	0.3	0.3
At 31 December 2012	–	(4.3)	(4.3)

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 as at each balance sheet date. The calculation takes account of indexation on the historic cost of the properties and any available capital losses. Due to the Group's REIT status, deferred tax is only provided at each balance sheet date on properties outside of 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.

30 Equity

The authorised share capital was £6.04m at 1 January 2012, 31 December 2012 and 31 December 2013. The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 92 to 109 and note 14. The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2012	101,640,982
Issued as a result of scrip dividends	109,416
Issued as a result of awards vesting under the Group's Performance Share Plan	204,508
Issued as a result of the exercise of share options[1]	59,325
At 31 December 2012	102,014,231
Issued as a result of scrip dividends	197,368
Issued as a result of awards vesting under the Group's Performance Share Plan	232,918
Issued as a result of the exercise of share options[1]	33,065
At 31 December 2013	**102,477,582**

[1] Proceeds from these issues were £0.4m (2012: £0.4m).

31 Reserves

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

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

Other reserves

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Merger reserve	**910.5**	910.5	**625.0**	668.3
Revaluation reserve	**11.7**	9.9	**–**	–
Equity portion of the convertible bonds	**21.7**	9.4	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**21.7**	9.4
Fair value of equity instruments under share-based payments	**4.7**	4.2	**4.7**	4.2
	948.6	934.0	**651.4**	681.9

32 Profit for the year attributable to members of Derwent London plc

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. Profit for the year includes a profit of £205.6m (2012: £128.5m) which has been dealt with in the accounts of the Company.

33 Dividends

		Dividend per share				
	Payment date	PID p	Non-PID p	Total p	2013 £m	2012 £m
Current year						
2013 final dividend	13 June 2014	23.50	2.25	25.75	**–**	–
2013 interim dividend	24 October 2013	6.00	4.75	10.75	**10.9**	–
Distribution of current year profit		29.50	7.00	36.50	**10.9**	–
Prior year						
2012 final dividend	14 June 2013	18.75	5.00	23.75	**24.3**	–
2012 interim dividend	1 November 2012	9.95	–	9.95	**–**	10.2
Distribution of prior year profit		28.70	5.00	33.70	**24.3**	10.2
2011 final dividend	15 June 2012	18.10	3.80	21.90	**–**	22.3
Dividends as reported in the Group statement of changes in equity					**35.2**	32.5
2013 interim dividend withholding tax	14 January 2014				**(0.9)**	–
2013 interim scrip dividend	24 October 2013				**(1.2)**	–
2012 final scrip dividend	14 June 2013				**(3.5)**	–
2012 interim dividend withholding tax	14 January 2013				**1.5**	(1.5)
2012 interim scrip dividend	1 November 2012				**–**	(0.7)
2011 final scrip dividend	15 June 2012				**–**	(1.3)
2011 interim dividend withholding tax	27 January 2012				**–**	1.4
Dividends paid as reported in the Group cash flow statement					**31.1**	30.4

34 Cash and cash equivalents

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Cash at bank	**12.5**	4.4	**10.9**	1.2

35 Total return

	2013 p	2012 p
EPRA net asset value on a diluted basis		
At end of year	**2,264.00**	1,886.00
At start of year	**(1,886.00)**	(1,701.00)
Increase	**378.00**	185.00
Dividend per share	**34.50**	31.85
Increase including dividend	**412.50**	216.85
Total return	**21.9%**	12.7%

36 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2013 and not provided for in the accounts amounted to £43.0m (2012: £78.4m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties. At 31 December 2013 and 31 December 2012, there were no obligations for the purchase, repair or maintenance of investment properties.

37 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2013 and 31 December 2012, there was no liability that could arise for the Company from the cross guarantees.

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

38 Leases

	2013 £m	2012 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**122.3**	124.1
later than one year and not later than five years	**411.1**	438.9
later than five years	**658.6**	809.4
	1,192.0	1,372.4

	2013 £m	2012 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**0.5**	0.7
later than one year and not later than five years	**2.0**	2.8
later than five years	**62.3**	62.6
	64.8	66.1
Future contingent rent payable on finance leases	**(17.0)**	(17.6)
Future finance charges on finance leases	**(39.6)**	(39.6)
Present value of finance lease liabilities	**8.2**	8.9
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**–**	0.5
later than five years	**8.2**	8.4
	8.2	8.9

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

	2013 £m	2012 £m
Finance charge	**0.5**	0.4
Contingent rent	**0.4**	0.5
Total	**0.9**	0.9

The Group has nearly 750 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 15 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases granted during 2013 was 13.8 years (2012: 13.5 years). Of these leases, on a weighted average basis, 90% (2012: 94%) included a rent free or half rent period.

39 Post balance sheet events

In January 2014, the Group initiated a programme to locate a buyer for one of its properties which had a fair value at 31 December 2013 of £23.0m. The sale is expected to complete during 2014. The property has not been included within non-current assets held for sale as the programme commenced after 31 December 2013.

In February 2014, the Group conditionally exchanged contracts to sell its 25% interest in the joint venture Euro Mall Sterboholy a.s. in Prague for an amount approximately equal to its carrying value. Completion of the transaction is expected during the first half of 2014. The investment has been included within non-current assets held for sale.

40 Principal operating companies

The principal operating companies within the Group at 31 December 2013 were:

	Ownership	Principal activity
Subsidiaries		
22 Kingsway Limited[1]	100%	Property investment
BBR Property Limited[1]	100%	Property trading
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Charlotte Street Limited[1]	100%	Property trading
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Caledonian Properties Limited	100%	Property investment
Derwent London Capital (Jersey) Limited[1]	100%	Finance company
Derwent London Capital No. 2 (Jersey) Limited[1]	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited[1]	100%	Holding company

[1] Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

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

The Company has taken advantage of the exemption in s410 of the Companies Act 2006 only to disclose a list comprising solely the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

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

All of the above companies are registered and operate in England and Wales except for Euro Mall Sterboholy a.s., which is registered in the Czech Republic and Derwent London Capital (Jersey) Limited, Derwent London Capital No. 2 (Jersey) Limited and 22 Kingsway Limited which are registered in Jersey.

41 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 92 to 109 and note 12. Other related party transactions are as follows:

Group

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which occupies offices owned by the Group for which they paid a commercial rent of £0.3m (2012: £0.3m). The Group also contributed £0.1m (2012: £0.1m) to LMS Capital plc's running costs.

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

At 31 December 2013, included within other receivables in note 22 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £15.1m (2012: £12.6m). The majority of this amount represents advances to the Portman Estate, relating to proceeds received upon the disposal of jointly owned properties. This debt will be discharged by a distribution to shareholders.

Company

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

	Interest (payable)/receivable		Dividend received		Balance owed/(owing)	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Related party						
22 Kingsway Limited	–	–	–	–	25.3	–
BBR Property Limited	0.4	–	–	–	14.6	–
Derwent Central Cross Limited	7.9	7.7	–	–	169.4	151.5
Derwent Henry Wood Limited	2.4	2.6	–	–	49.0	49.1
Derwent London Capital (Jersey) Limited[1]	(6.6)	(6.5)	–	–	(167.6)	(164.9)
Derwent London Capital No. 2 (Jersey) Limited[2]	(1.6)	–	–	–	(134.9)	–
Derwent London Charlotte Street Limited	0.1	–	–	–	8.7	–
Derwent London Grafton Limited	1.8	1.0	–	–	35.4	37.7
Derwent London Howland Limited	6.4	3.4	–	–	128.3	128.1
Derwent London Page Street Limited	0.9	0.1	–	–	21.0	6.7
Derwent Valley Central Limited	(0.3)	3.8	–	100.0	100.0	207.4
Derwent Valley London Limited	5.9	5.8	20.0	–	143.2	114.9
Derwent Valley Property Developments Limited	(1.3)	4.3	–	–	93.2	96.0
Derwent Valley Property Investments Limited	(4.0)	(3.9)	30.0	–	(53.6)	(77.5)
Derwent Valley Railway Company[3]	–	–	–	–	(0.2)	(0.2)
Derwent Valley West End Limited	–	–	–	–	(0.1)	–
London Merchant Securities Limited[4]	7.7	(3.1)	210.0	–	203.1	(12.4)
	19.7	15.2	260.0	100.0	634.8	536.4

[1] The payable balance at 31 December 2013 includes the long-term intercompany loan of £167.7m (2012: £165.0m) included in note 26.
[2] The payable balance at 31 December 2013 includes the long-term intercompany loan of £135.0m (2012: £nil) included in note 26.
[3] Dormant company.
[4] Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the long-term loans from Derwent London Capital (Jersey) Limited and Derwent London Capital No. 2 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

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

42 Significant accounting policies

Basis of consolidation

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

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

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

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

Gross property income

Gross property income arises from two main sources:

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

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with SIC 15 Operating Leases – Incentives and IAS 17 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free or half rent periods or capital contributions in lieu of rent free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases.

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

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

Other income

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

Expenses

(i) Lease payments – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

(ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

(iii) Reverse surrender premiums – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.

(iv) Other property expenditure – Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IAS 17 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

Employee benefits

(i) Share-based remuneration

(a) Equity-settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of options granted is calculated using a binomial lattice pricing model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.

(b) Cash-settled – For cash-settled share-based payments, a liability is recognised based on the current fair value determined at each balance sheet date. The movement in the current fair value is taken to the Group income statement.

Employee benefits (continued)

(ii) Pensions

(a) Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

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

Business combinations

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

Investment property

(i) Valuation – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by external valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.

(ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.

(iii) Disposal – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.

(iv) Development – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing it as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Property, plant and equipment

(i) Owner-occupied property – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.

(ii) Artwork – Artwork is stated at revalued amounts on the basis of open market value.

(iii) Other – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

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

42 Significant accounting policies (continued)

Non-current assets held for sale

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

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

Financial assets

(i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

Financial liabilities

(i) Bank loans and fixed rate loans – Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.

(ii) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.

(iii) Convertible bonds – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

(iv) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(v) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

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

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

Deferred tax

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

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

Dividends

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

Foreign currency translation

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

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

FIVE-YEAR SUMMARY

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Gross property income	**131.6**	124.8	125.5	119.4	123.8
Net property income	**124.3**	117.0	117.7	113.0	114.8
EPRA profit before tax	**57.8**	52.5	52.3	55.2	61.8
Profit/(loss) on disposal of properties and investments	**53.5**	10.8	36.1	0.9	(16.6)
Profit/(loss) before tax	**467.9**	228.1	233.0	352.8	(34.9)
Net assets	**2,370.5**	1,918.0	1,714.5	1,494.7	1,163.9
Property portfolio at fair value	**3,353.1**	2,859.6	2,646.5	2,426.1	1,918.4
Revaluation surplus/(deficit)	**337.5**	175.3	172.1	301.7	(81.1)
Net debt	**949.2**	874.8	864.5	887.8	720.8
Cash flow[1]	**(65.9)**	1.9	18.4	(171.6)	139.5
Net cash inflow from operating activities	**57.5**	52.5	47.2	46.5	66.4
Acquisitions	**130.1**	99.8	91.6	148.0	10.2
Capital expenditure on properties	**108.4**	78.6	42.6	49.5	94.6
Disposals	**149.7**	161.0	131.5	8.5	195.5
EPRA earnings per share (p)	**53.87**	50.36	51.59	52.89	57.14
Underlying earnings per share (p)	**53.87**	49.77	50.01	51.40	50.79
Dividend per share					
IFRS (p)	**34.50**	31.85	29.60	27.60	24.50
Distribution of year earnings (p)	**36.50**	33.70	31.35	29.00	27.00
Net asset value per share (p)	**2,248**	1,824	1,636	1,432	1,117
EPRA net asset value per share (p) – undiluted	**2,286**	1,896	1,712	1,484	1,168
EPRA net asset value per share (p) – diluted	**2,264**	1,886	1,701	1,474	1,161
EPRA triple net asset value per share (p) – diluted	**2,222**	1,764	1,607	1,425	1,126
EPRA total return (%)	**21.9**	12.7	17.4	29.3	(2.9)
Gearing					
NAV (%)	**40.0**	45.6	50.4	59.4	61.9
Loan-to-value ratio (%)	**28.0**	30.0	32.0	35.7	36.4
Gross interest cover ratio (%)	**363**	351	307	328	330
Net interest cover ratio (%)	**279**	263	261	286	280

[1] Cash flow is the net cash from operating and investing activities less the dividends paid.

A list of definitions is provided on pages 166 and 167.

PRINCIPAL PROPERTIES

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Central (62%)				
Fitzrovia[1]/Euston (37%)				
1-2 Stephen Street & Tottenham Court Walk W1	150+	O/R/L	F	255,100
132-142 Hampstead Road NW1	25-50	O	F	217,000
80 Charlotte Street W1	75-150	O	F	200,000
8 Fitzroy Street W1	75-150	O	F	147,900
Qube, 90 Whitfield Street W1	75-150	O/R/Re	F	109,900
Holden House, 54-68 Oxford Street W1	75-150	O/R	F	90,800
Henry Wood House, 3-7 Langham Place W1	50-75	O/R/L	L	79,900
25 and 29 Berners Street W1	25-50	O	L	79,500
Middlesex House, 34-42 Cleveland Street W1	25-50	O	F	64,600
Network Building, 95-100 Tottenham Court Road W1	25-50	O/R	F	64,100
120-134 Tottenham Court Road W1[2]	25-50	R/L	F	53,200
88-94 Tottenham Court Road W1	0-25	O/R	F	52,400
Charlotte Building, 17 Gresse Street W1	25-50	O	L	47,200
80-85 Tottenham Court Road W1	25-50	O/R	F	44,500
60 Whitfield Street W1	25-50	O	F	36,200
75 Wells Street W1	25-50	O/R	L	34,700
43 and 45-51 Whitfield Street W1	0-25	O	F	31,000
65 Whitfield Street W1	0-25	O	F	30,600
Rathbone Studios, 7-10 Rathbone Place W1	0-25	O/R/Re	L	23,100
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	20,300
73 Charlotte Street W1	0-25	O/Re	F	15,500[3]
76-78 Charlotte Street W1	0-25	O	F	10,800
Victoria (12%)				
Horseferry House, Horseferry Road SW1	75-150	O	F	162,700
Greencoat and Gordon House, Francis Street SW1	75-150	O	F	128,900
1 Page Street SW1	75-150	O	F	127,800
Premier House, 10 Greycoat Place SW1	25-50	O	F	62,000
Francis House, 11 Francis Street SW1	25-50	O	F	57,000
6-8 Greencoat Place SW1	0-25	O	F	33,200
Baker Street/Marylebone (5%)				
19-35 Baker Street W1	50-75	O/R	L	77,800
88-110 George Street W1	25-50	O/R/Re	L	44,800
30 Gloucester Place W1	0-25	O/Re	L	23,600
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	22,100
17-39 George Street W1	0-25	O/R/Re	L	21,400
Soho/Covent Garden (4%)				
Bush House, South West Wing, Strand WC2	0-25	O	F	107,900
Tower House, 10 Southampton Street WC2	50-75	O/R/Re	F	52,700
Davidson Building, 5 Southampton Street WC2	25-50	O/R	F	41,700
Jaeger House, 57 Broadwick Street W1	0-25	O/R	F	24,900
Mayfair (2%)				
25 Savile Row W1	50-75	O/R	F	42,300
Paddington (2%)				
55-65 North Wharf Road W2	25-50	O	L	77,600
Queens, 96-98 Bishop's Bridge Road W2	0-25	Re	F	21,400[3]

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Borders (9%)				
Islington/Camden (8%)				
Angel Building, 407 St. John Street EC1	150+	O/R	F	262,000
4 & 10 Pentonville Road N1	25-50	O	F	55,000
Balmoral Grove Buildings, N7 and 1-9 Market Road N7	0-25	O/I	F	48,900
Suncourt House, 18-26 Essex Road N1	0-25	O/R	F	27,200
35 & 37 Kentish Town Road NW1	0-25	O	F	24,500
423-425 Caledonian Road N7	0-25	O	F	18,300
Ladbroke Grove (1%)				
Portobello Dock and Kensal House W10	0-25	O/R	F	51,600
136-142 Bramley Road W10	0-25	O	F	30,900
City: Borders (26%)				
Clerkenwell (9%)				
88 Rosebery Avenue EC1	25-50	O	F	103,700
Morelands Buildings, 5-27 Old Street EC1	25-50	O/R	L	89,700
The Buckley Building, 49 Clerkenwell Green EC1	75-150	O /R	F	85,100
Turnmill, 63 Clerkenwell Road EC1	25-50	O/R	F	70,500[3]
19 Charterhouse Street EC1	25-50	O	F	63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	0-25	O	F	35,200
151 Rosebery Avenue EC1	0-25	O	F	24,000
3-4 Hardwick Street EC1	0-25	O	F	12,000
Holborn (7%)				
Johnson Building, 77 Hatton Garden EC1	75-150	O/R	F	157,100
40 Chancery Lane WC2	25-50	O/R	L	101,800[3]
22 Kingsway WC2	50-75	O	F	91,400[3]
6-7 St. Cross Street EC1	0-25	O	F	33,800
Old Street (5%)				
1 Oliver's Yard EC2	75-150	O/R	F	186,000
White Collar Factory, City Road EC1	25-50	O/R/Re	F	293,000[3]
Monmouth House, 58-64 City Road EC1	0-25	O	F	41,500
186 City Road EC1	0-25	O	F	38,300
Shoreditch/Whitechapel (5%)				
Tea Building, Shoreditch High Street E1	75-150	O/R/L	F	259,600
9 and 16 Prescot Street E1	0-25	O/R	F	111,000
Mark Square House, 1 Mark Square EC2	25-50	O	F	61,700
Southwark (-)				
Wedge House, 30-40 Blackfriars Road SE1	0-25	O/L	F	38,700
Provincial (3%)				
Scotland (3%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-75	R	F	313,300
Land, Bishopbriggs, Glasgow	25-50	–	F	5,500 acres

[1] Includes North of Oxford Street
[2] Includes a 330-room hotel
[3] Proposed scheme area
[4] Total floor area
[5] Excludes 44,000 sq ft theatre
( ) Percentages weighted by valuation

Tech Belt (30%)

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, disposals 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 year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

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

European Public Real Estate Association (EPRA)
An association of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in August 2011 (www.epra.com/media/EPRA_BPR_2011.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted. In addition, in accordance with EPRA guidelines, Group specific adjustments have been made to adjusted profit and adjusted earnings per share to arrive at the underlying position.

- EPRA earnings per share
  Recurring earnings from core operational activities.
- Underlying profit/earnings per share
  EPRA profit or earnings per share adjusted for items which are excluded to show the underlying trend. For 2012, these adjustments were for rates credits and the foreign exchange movement.
- EPRA net asset value per share
  NAV adjusted 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 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 years under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year, surrender premiums and properties acquired or disposed of in either year.

In July 2013, EPRA published guidance on the calculation of the following cost ratios which the Group has also adopted:

- 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.

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

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

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

Interest cover ratios

- Gross interest cover ratio
  Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable and capitalised interest.
- Net interest cover ratio
  Net property income, excluding other income, net surrender premiums receivable and reverse surrender premiums payable divided by interest payable on borrowings and non-utilisation fees.

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 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, which measure the Group's performance against appropriate benchmarks.

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.