NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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.

Going concern

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

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

In particular the Directors have considered the relatively long-term and stable nature of the cash flows receivable under the tenant leases, the Group's loan-to-value ratio of 24%, the interest cover ratio of 286% and the £336m total of undrawn facilities and cash at 31 December 2014. They have also considered the fact that after conversion of the 2.75% convertible bonds 2016 in January 2015 the proforma average maturity of borrowings was extended to 7.9 years.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The strategic report also includes the Group's risks and risk management processes, as well as the financial position of the Group, its cash flows, liquidity position and borrowing facilities.

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

2 Changes in accounting policies

The principal accounting policies are described in note 41 and are consistent with those applied in its financial statements for the year to 31 December 2013, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 December 2014 year end and had no material impact on the financial statements:

IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements;
IFRS 12 Disclosure of Interests in Other Entities;
IAS 27 (revised) – Separate Financial Statements;
IAS 28 (revised) – Investments in Associates and Joint Ventures;
IAS 32 (amended) – Financial Instruments: Presentation on Offsetting Financial Assets and Financial Liabilities;
IAS 36 (amended) – Impairment of Assets on Recoverable Amounts Disclosures for Non-Financial Assets;
IAS 39 (amended) – Financial Instruments: Recognition and Measurement on Novation of Derivatives and Continuation of Hedge Accounting; and
IFRIC 21 'Levies'.

Standards and interpretations in issue but not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting year and have not been adopted early. Based on the Group's current circumstances the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

IFRS 9 Financial Instruments;
IFRS 10 (amended) – Consolidated Financial Statements;
IFRS 11 (amended) – Joint Arrangements;
IFRS 14 Regulatory Deferral Accounts;
IFRS 15 Revenue from Contracts with Customers;
IAS 16 (amended) – Property Plant and Equipment;
IAS 19 (amended) – Employee Benefits;
IAS 27 (amended) – Separate Financial Statements;
IAS 28 (amended) – Investments in Associates and Joint Ventures;

IAS 38 (amended) – Intangible Assets;
IAS 41 (amended) – Agriculture;
Annual Improvements to IFRSs (2010 – 2012 Cycle);
Annual Improvements to IFRSs (2011 – 2013 Cycle); and
Annual Improvements to IFRSs (2014).

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. The Group's significant accounting policies are stated in note 41. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. 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 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.

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 16.

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 38. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 93% office buildings[1] by value (2013: 93%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 7% (2013: 7%) represented a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

4 Segmental information (continued)

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

Gross property income

	2014			2013		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	80.5	3.7	**84.2**	77.0	4.4	81.4
West End borders	13.4	0.3	**13.7**	13.5	0.2	13.7
City borders	35.6	0.2	**35.8**	31.4	0.2	31.6
Provincial	–	4.7	**4.7**	–	4.9	4.9
	129.5	8.9	**138.4**	121.9	9.7	131.6

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

Property portfolio

	2014			2013		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,289.4	153.2	**2,442.6**	1,923.9	120.7	2,044.6
West End borders	364.4	15.6	**380.0**	270.3	13.1	283.4
City borders	1,164.0	5.4	**1,169.4**	863.4	4.6	868.0
Provincial	–	97.8	**97.8**	–	89.2	89.2
	3,817.8	272.0	**4,089.8**	3,057.6	227.6	3,285.2
Fair value						
West End central	2,322.3	159.7	**2,482.0**	1,953.0	123.5	2,076.5
West End borders	385.2	15.5	**400.7**	289.9	13.1	303.0
City borders	1,178.0	5.4	**1,183.4**	875.3	4.6	879.9
Provincial	–	102.0	**102.0**	–	93.7	93.7
	3,885.5	282.6	**4,168.1**	3,118.2	234.9	3,353.1

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

5 Property and other income

	2014 £m	2013 £m
Gross rental income	**136.7**	130.9
Surrender premiums received	**0.1**	1.6
Write-off of associated rents previously recognised in advance	**–**	(0.9)
	0.1	0.7
Other property income	**1.6**	–
Gross property income	**138.4**	131.6
Trading property sales proceeds	**15.7**	–
Service charge income	**24.4**	26.9
Other income	**2.0**	2.0
Gross property and other income	**180.5**	160.5
Gross rental income	**136.7**	130.9
Ground rent	**(0.4)**	(0.4)
Service charge income	**24.4**	26.9
Service charge expenses	**(25.6)**	(28.8)
	(1.2)	(1.9)
Other property costs	**(6.4)**	(6.9)
Net rental income	**128.7**	121.7
Trading property sales proceeds	**15.7**	–
Trading property cost of sales	**(11.8)**	–
Profit on trading property disposals	**3.9**	–
Other property income	**1.6**	–
Other income	**2.0**	2.0
Net surrender premiums received	**0.1**	0.7
Reverse surrender premiums	**(0.4)**	(0.2)
Dilapidation receipts	**0.2**	0.1
Net property and other income	**136.1**	124.3

Included within rental income is £1.5m (2013: £2.3m) of income which was derived 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 £7.0m (2013: £5.6m) relating to rents recognised in advance of the cash receipts.

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

In 2014, there were no costs (2013: £0.4m) included in net property and other income relating to properties which produced no income during the year.

6 Profit on disposal

	2014 £m	2013 £m
Investment property		
Gross disposal proceeds	**100.6**	151.3
Costs of disposal	**(1.6)**	(1.5)
Net disposal proceeds	**99.0**	149.8
Carrying value	**(70.3)**	(96.4)
Adjustment for rents recognised in advance	**(0.5)**	(0.7)
Movement in grossing up of headlease liability	**–**	0.8
Profit on disposal of investment property	**28.2**	53.5
Investment in joint venture		
Gross disposal proceeds	**5.4**	–
Costs of disposal	**(0.5)**	–
Net disposal proceeds	**4.9**	–
Carrying value	**(2.9)**	–
Profit on disposal of investment in joint venture	**2.0**	–
Total profit on disposal	**30.2**	53.5

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

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

7 Finance income and costs

	2014 £m	2013 £m
Finance income		
Other	**–**	0.2
Total finance income	**–**	0.2
Finance costs		
Bank loans and overdraft	**12.7**	17.4
Non-utilisation fees	**2.3**	2.8
Unsecured convertible bonds	**10.4**	8.2
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**4.5**	–
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**3.3**	3.2
Amortisation of the fair value of the secured bonds	**(0.9)**	(0.9)
Finance leases	**0.5**	0.5
Other	**0.2**	0.3
Gross interest costs	**47.7**	46.2
Less: finance costs capitalised	**(5.3)**	(4.8)
Finance costs	**42.4**	41.4
Loan arrangement costs written off	**–**	3.2
Total finance costs	**42.4**	44.6

Finance costs of £5.3m (2013: £4.8m) 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 2014 were £36.3m (2013: £37.1m) of which £5.3m (2013: £4.8m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

As a result of the refinancing of the Group's bank facilities in September 2013, £3.2m of unamortised arrangement costs associated with the previous facilities repaid were written off to the Group income statement in 2013. In accordance with EPRA guidance, these costs have been excluded from EPRA profit and earnings (see note 38).

8 Financial derivative termination costs

The Group incurred costs of £2.0m in 2014 deferring the start dates of two 'forward-start' interest rate swaps with an aggregate principal amount of £135m.

In 2013, the Group terminated, deferred and re-couponed interest rate swaps with a principal amount of £190m at a cost of £12.9m, and incurred costs of £0.8m deferring the start date to April 2014 of an interest rate swap with a principal amount of £65m.

9 Share of results of joint ventures

	2014 £m	2013 £m
Revaluation surplus/(deficit)	**1.9**	(0.3)
Other profit from operations of joint ventures	**0.6**	1.1
	2.5	0.8

See note 18 for further details of the Group's joint ventures.

10 Profit before tax

	2014 £m	2013 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.3**	0.4
Contingent rent payable under property finance leases	**0.4**	0.4
Auditor's remuneration		
Audit – Group	**0.2**	0.2
Audit – subsidiaries	**0.1**	0.1

Details of the Auditor's independence are included on page 115.

11 Directors' emoluments

	2014 £m	2013 £m
Remuneration for management services	**6.3**	6.1
Share based payments	**3.5**	5.3
Post employment benefits	**0.5**	0.5
	10.3	11.9
National insurance contributions	**1.4**	1.6
	11.7	13.5

Included within the figures shown in note 12 below are amounts recognised in the Group income statement, in accordance with IFRS 2 Share-based Payment, relating to the Directors. These are expenses of £3.8m (2013: £3.5m) relating to equity-settled share options and deferred bonus shares and £0.3m (2013: £0.3m) 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 93 to 110. The only key management personnel are the Directors.

12 Employees

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Staff costs, including those of Directors:				
Wages and salaries	**14.5**	13.6	**14.3**	13.4
Social security costs	**2.1**	1.9	**2.1**	1.9
Pension costs	**1.6**	1.7	**1.6**	1.7
Share-based payments expense relating to equity-settled schemes	**3.9**	3.8	**3.9**	3.8
Share-based payments expense relating to cash-settled schemes	**0.3**	0.3	**–**	–
	22.4	21.3	**21.9**	20.8

The average number of employees in the Group during the year, excluding Directors, was 98 (2013: 99). The average number of employees in the Company during the year, excluding Directors, was 81 (2013: 83). All were employed in administrative roles. Of the Group employees there were 13 (2013: 12) whose costs were recharged to tenants.

13 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 93 to 110, 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 93 to 110. 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	11,925
	13.20	18/03/2013	17/03/2020	50,000
	16.60	25/03/2014	24/03/2021	83,500
	17.19	12/04/2015	11/04/2022	99,750
Outstanding at 1 January 2013				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
Options granted during the year	27.39	07/04/2017	06/04/2024	100,000
Options exercised	6.10			(3,980)
Options exercised	13.20			(18,840)
Options exercised	16.60			(74,925)
Options lapsed	17.19			(1,500)
Options lapsed	21.99			(4,750)
Options lapsed	27.39			(2,500)
Options lapsed during the year				(8,750)
Outstanding at 31 December 2014				**297,865**

	31 December 2014	31 December 2013	1 January 2013
Number of shares:			
Exercisable	**14,865**	31,360	11,925
Non-exercisable	**283,000**	273,000	233,250
Weighted average exercise price of share options:			
Exercisable	**£12.00**	£11.04	£6.10
Non-exercisable	**£22.24**	£18.69	£16.12
Weighted average remaining contracted life of share options:			
Exercisable	**5.62 years**	6.05 years	6.21 years
Non-exercisable	**8.29 years**	8.32 years	8.46 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**–**	–	–
Non-exercisable	**£22.71**	£15.99	£14.90

The weighted average share price at which options were exercised during 2014 was £28.08 (2013: £23.50).

The following information is relevant in the determination of the fair value of the options granted during 2013 and 2014 under the equity-settled employee share plan operated by the Group.

	2014	2013
Option pricing model used	**Binomial lattice**	Binomial lattice
Risk free interest rate	**1.7%**	0.8%
Volatility	**24.0%**	25.0%
Dividend yield	**1.3%**	1.5%

For both the 2014 and 2013 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. All outstanding options were exercised during 2014.

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

An assumption of zero employee turnover was made and a volatility assumption of 17% pa was used for options with expected terms of one year, which covered all outstanding awards at 31 December 2013.

14 Pension costs

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

Defined contribution plan

The total expense relating to this plan in the current year was £1.2m (2013: £1.3m).

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.

Amounts included in the balance sheet

	2014 £m	2013 £m	2012 £m
Fair value of plan assets	**14.9**	12.2	12.0
Present value of defined benefit obligation	**(15.1)**	(11.1)	(11.8)
(Deficit)/surplus in scheme	**(0.2)**	1.1	0.2
Impact of asset ceiling	**–**	(0.3)	–
Net (liability)/asset	**(0.2)**	0.8	0.2

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 (liability)/asset 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 £15.1m (2013: £11.1m).

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

	2014 £m	2013 £m
Impact of asset ceiling at start of period	**0.3**	–
Actuarial (gains)/losses on asset ceiling	**(0.3)**	0.3
Impact of asset ceiling at end of the year	**–**	0.3

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

	2014 £m	2013 £m
At 1 January	**11.1**	11.8
Current service cost	**0.1**	0.1
Interest cost	**0.5**	0.5
Actuarial losses due to scheme experience	**0.1**	–
Actuarial gains due to changes in demographic assumptions	**0.1**	–
Actuarial losses due to changes in financial assumptions	**3.2**	0.3
Benefits paid, death in service premiums and expenses	**–**	(1.6)
At 31 December	**15.1**	11.1

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

14 Pension costs (continued)

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

	2014 £m	2013 £m
At 1 January	**12.2**	12.0
Interest income	**0.5**	0.5
Return on plan assets (excluding amounts included in interest income)	**1.5**	0.7
Contributions by the Group	**0.7**	0.6
Benefits paid, death in service premiums and expenses	**–**	(1.6)
At 31 December	**14.9**	12.2

The actual return on the plan assets over the year was £2.0m (2013: £1.2m).

Defined benefit costs recognised in the income statement

	2014 £m	2013 £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

	2014 £m	2013 £m
Gain on plan assets (excluding amounts recognised in net interest cost)	**1.5**	0.7
Experience losses arising on the defined benefit obligation	**(0.1)**	–
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	**(0.1)**	–
Loss from changes in the financial assumptions underlying the present value of the defined benefit obligation	**(3.2)**	(0.4)
(Loss)/gain from total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	**(1.9)**	0.3
Gain/(loss) from the effect of the asset ceiling	**0.3**	(0.3)
Total recognised in other comprehensive income	**(1.6)**	–

Fair value of plan assets

	2014 £m	2013 £m	2012 £m
UK equities	**0.6**	0.5	0.1
Overseas equities	**0.6**	0.6	0.1
Government bonds	**3.0**	2.4	2.6
Cash	**0.7**	0.6	0.7
Other	**10.0**	8.1	8.5
Total assets	**14.9**	12.2	12.0

The £10.0m in the 'other' asset class is made up of holdings of approximately £4.0m in equity-linked gilt funds and £6.0m in absolute return funds.

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 Trustee's 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 2014.

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

Significant actuarial assumptions

	2014 %	2013 %	2012 %
Discount rate	**3.65**	4.60	4.70
Inflation (RPI)	**3.20**	3.50	2.90
Salary increases	**4.70**	5.00	4.40
Allowance for commutation of pension for cash at retirement	**75% of Post A Day Pension**	75% of Post A Day Pension	75% of Post A Day Pension

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.

Life expectancy at age 65

	Years
Male retiring in 2014	24.0
Female retiring in 2014	26.3
Male retiring in 2034	25.9
Female retiring in 2034	28.2

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 7.0%
Inflation (RPI)	Increase of 0.25% pa	Increase by 0.3%
Salary increases	Increase of 0.25% pa	Increase by 0.3%
Rate of mortality	Increase in life expectancy of one year	Increase by 3.0%
Allowance for commutation of pension for cash at retirement	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 1.5%

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 2014 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 2015 is £0.7m.

15 Tax charge

	2014 £m	2013 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	0.8	0.8
Other adjustments in respect of prior years' tax	–	0.2
Corporation tax charge	0.8	1.0
Deferred tax		
Origination and reversal of temporary differences	3.2	1.3
Adjustment for changes in estimates	(0.1)	0.1
Deferred tax charge	3.1	1.4
Tax charge	3.9	2.4

In addition to the tax charge of £3.9m (2013: £2.4m) that passed through the Group income statement, a deferred tax charge of £0.9m (2013: £0.1m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2014 is lower (2013: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2014 £m	2013 £m
Profit before tax	753.7	467.9
Expected tax charge based on the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)[1]	162.0	108.8
Difference between tax and accounting profit on disposals	(5.1)	(15.0)
REIT exempt income	(9.8)	(11.0)
Revaluation surplus attributable to REIT properties	(143.4)	(78.0)
Expenses and fair value adjustments not allowable for tax purposes	0.9	(1.8)
Capital allowances	(3.6)	(3.9)
Origination and reversal of temporary differences	3.2	1.3
Other differences	(0.3)	1.8
Tax charge in respect of profit for the year	3.9	2.2
Adjustments in respect of prior years' tax	–	0.2
	3.9	2.4

[1] The expected tax rate for 2014 has been changed in line with the 2014 Finance Act.

16 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 2014	2,773.2	469.7	3,242.9	19.7	–	22.6	3,285.2
Acquisitions	92.2	–	92.2	–	–	–	92.2
Capital expenditure	80.0	24.1	104.1	0.3	–	12.3	116.7
Interest capitalisation	3.6	1.3	4.9	–	–	0.4	5.3
Additions	175.8	25.4	201.2	0.3	–	12.7	214.2
Disposals	(70.1)	(0.2)	(70.3)	–	–	(11.3)	(81.6)
Revaluation	585.4	81.7	667.1	4.8	–	–	671.9
Movement in grossing up of headlease liabilities	–	0.1	0.1	–	–	–	0.1
At 31 December 2014	**3,464.3**	**576.7**	**4,041.0**	**24.8**	**–**	**24.0**	**4,089.8**
At 1 January 2013	2,296.6	476.0	2,772.6	17.9	16.5	–	2,807.0
Acquisitions	129.8	(0.5)	129.3	–	–	–	129.3
Capital expenditure	81.0	18.0	99.0	–	–	4.0	103.0
Interest capitalisation	3.8	0.9	4.7	–	–	0.1	4.8
Additions	214.6	18.4	233.0	–	–	4.1	237.1
Disposals	(0.6)	(79.3)	(79.9)	–	(16.5)	–	(96.4)
Depreciation	–	–	–	(0.1)	–	–	(0.1)
Transfers	(18.5)	–	(18.5)	–	–	18.5	–
Revaluation	281.1	54.5	335.6	1.9	–	–	337.5
Movement in grossing up of headlease liabilities	–	0.1	0.1	–	–	–	0.1
At 31 December 2013	2,773.2	469.7	3,242.9	19.7	–	22.6	3,285.2
Adjustments from fair value to carrying value							
At 31 December 2014							
Fair value	**3,541.6**	**572.6**	**4,114.2**	**24.8**	**–**	**29.1**	**4,168.1**
Revaluation of trading property	–	–	–	–	–	(5.1)	(5.1)
Lease incentives and costs included in receivables	(77.3)	(4.2)	(81.5)	–	–	–	(81.5)
Grossing up of headlease liabilities	–	8.3	8.3	–	–	–	8.3
Carrying value	**3,464.3**	**576.7**	**4,041.0**	**24.8**	**–**	**24.0**	**4,089.8**
At 31 December 2013							
Fair value	2,843.1	465.6	3,308.7	19.7	–	24.7	3,353.1
Revaluation of trading property	–	–	–	–	–	(2.1)	(2.1)
Lease incentives and costs included in receivables	(69.9)	(4.1)	(74.0)	–	–	–	(74.0)
Grossing up of headlease liabilities	–	8.2	8.2	–	–	–	8.2
Carrying value	2,773.2	469.7	3,242.9	19.7	–	22.6	3,285.2

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2014 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £4,135.2m (2013: £3,322.8m) and other valuers at £32.9m (2013: £30.3m). Of the properties revalued by CBRE, £24.8m (2013: £19.7m) relating to owner-occupied property was included within property, plant and equipment and £29.1m (2013: £24.7m) was in relation to trading property.

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

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

Reconciliation of revaluation surplus

	2014 £m	2013 £m
Total revaluation surplus	**683.8**	352.5
Lease incentives and costs	**(8.0)**	(13.0)
Trading property revaluation surplus	**(3.9)**	(2.1)
Owner-occupied property depreciation	**–**	0.1
IFRS revaluation surplus	**671.9**	337.5
Reported in the:		
Group income statement	**667.1**	335.6
Group statement of comprehensive income	**4.8**	1.9
	671.9	337.5

Valuation process

The 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 external valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement 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 either 2014 or 2013.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £667.1m (2013: £335.6m) and are presented in the Group income statement in the line item revaluation surplus. The revaluation surplus for the owner-occupied property of £4.8m (2013: £1.9m) was included within the revaluation reserve.

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

16 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	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m)	2,482.0	400.7	1,183.4	68.5	33.5	4,168.1
Area ('000 sq ft)	2,903	614	1,887	336	–	5,740
Range of unobservable inputs:						
Gross ERV (per sq ft pa)						
Minimum	£10	£9	£10	£8	n/a[1]	
Maximum	£81	£46	£57	£15	n/a[1]	
Weighted average	£40	£36	£39	£13	n/a[1]	
Net initial yield						
Minimum	0.0%	0.4%	0.0%	5.8%	0.0%	
Maximum	5.4%	3.8%	6.7%	12.0%	9.9%	
Weighted average	2.9%	3.1%	3.0%	5.9%	1.6%	
Reversionary yield						
Minimum	2.3%	3.0%	2.9%	6.2%	0.0%	
Maximum	8.8%	5.9%	7.7%	13.0%	11.3%	
Weighted average	4.3%	5.2%	5.3%	6.3%	1.8%	
True equivalent yield (EPRA)						
Minimum	2.5%	3.1%	4.1%	6.3%	0.0%	
Maximum	6.3%	5.7%	5.9%	12.6%	10.9%	
Weighted average	4.5%	5.1%	5.0%	6.4%	1.8%	

[1] There is no calculation of gross ERV per sq ft pa. The land totals 5,279 acres.

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.

A sensitivity analysis was performed to ascertain the impact on the fair value of a 25 basis point shift in true equivalent yield and a £2.50 per sq ft shift in ERV.

	West End central %	West End borders %	City borders %	Provincial commercial %	Provincial land %	Total %
True equivalent yield						
+25bp	(5.3)	(4.7)	(4.8)	(3.8)	(12.2)	(5.0)
- 25bp	5.9	5.2	5.3	4.1	16.1	5.6
ERV						
+£2.50 per sq ft	6.2	7.0	6.4	18.7	–	6.6
- £2.50 per sq ft	(6.2)	(7.0)	(6.4)	(18.7)	–	(6.6)

Historic cost

	2014 £m	2013 £m
Investment property	**2,534.4**	2,385.3
Owner-occupied property	**7.6**	7.3
Trading property	**23.4**	22.0
Total property portfolio	**2,565.4**	2,414.6

17 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2014	19.7	1.5	1.0	22.2
Additions	0.3	–	0.2	0.5
Depreciation	–	–	(0.3)	(0.3)
Revaluation	4.8	–	–	4.8
At 31 December 2014	**24.8**	**1.5**	**0.9**	**27.2**
At 1 January 2013	17.9	1.5	0.9	20.3
Additions	–	–	0.5	0.5
Disposals	–	–	(0.1)	(0.1)
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	1.9	–	–	1.9
At 31 December 2013	19.7	1.5	1.0	22.2
Net book value				
Cost or valuation	24.8	1.5	2.6	28.9
Accumulated depreciation	–	–	(1.7)	(1.7)
At 31 December 2014	**24.8**	**1.5**	**0.9**	**27.2**
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
Company				
At 1 January 2014	–	0.9	0.9	1.8
Additions	–	–	0.1	0.1
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2014	**–**	**0.9**	**0.7**	**1.6**
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 2013	–	0.9	0.9	1.8
Net book value				
Cost or valuation	–	0.9	2.6	3.5
Accumulated depreciation	–	–	(1.9)	(1.9)
At 31 December 2014	**–**	**0.9**	**0.7**	**1.6**
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

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in December 2014. 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 2014 was £1.5m (2013: £1.5m) and £0.9m (2013: £0.9m) in the Company. See note 16 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Investments

Group

The Group has a 50% interest in the joint venture, Primister Limited, and in April 2014 disposed of its 25% interest and 50% voting rights in the joint venture, Euro Mall Sterboholy a.s..

	2014 £m	2013 £m
At 1 January	**5.1**	10.2
Additions	**–**	0.1
Distributions received	**(0.1)**	(1.2)
Share of results of joint ventures (see note 9)	**2.5**	0.8
Transfer to non-current assets held for sale	**–**	(4.8)
Disposal of investment in joint venture	**(0.1)**	–
At 31 December	**7.4**	5.1

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

	2014		2013	
	Joint ventures £m	**Group share £m**	Joint ventures £m	Group share £m
Non-current assets	**21.0**	**10.5**	16.0	8.0
Current assets	**0.9**	**0.5**	0.6	0.3
Current liabilities	**–**	**–**	(0.4)	(0.2)
Non-current liabilities	**(7.2)**	**(3.6)**	(6.0)	(3.0)
Net assets	**14.7**	**7.4**	10.2	5.1
Income	**7.3**	**3.3**	12.7	3.8
Expenses	**(1.9)**	**(0.8)**	(10.9)	(3.0)
Profit for the year	**5.4**	**2.5**	1.8	0.8

Company

	Subsidiaries £m
At 1 January 2013	912.1
Additions	33.6
Disposals	(3.3)
Impairment	(43.3)
At 31 December 2013	899.1
Reversal of impairment	285.5
At 31 December 2014	**1,184.6**

At 31 December 2014 and 31 December 2013, the carrying value of the investment in London Merchant Securities Ltd (LMS) 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 fair value of LMS is the net asset value of its subsidiaries. Principally due to the valuation movement in investment properties, there has been an increase in the net asset value of these subsidiaries which resulted in an impairment reversal in the Company income statement of £285.5m. In 2013, there was a decrease in the net asset value mainly as a result of dividends paid by LMS in the year, which resulted in an impairment in the Company income statement of £43.3m.

19 Other receivables (non-current)

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Accrued income	**73.2**	66.4	**–**	–
Other	**5.7**	5.7	**–**	–
	78.9	72.1	**–**	–

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £8.3m (2013: £7.6m), which was included as current assets within trade and other receivables, these amounts totalled £81.5m at 31 December 2014 (2013: £74.0m).

20 Trade and other receivables

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Trade receivables	**4.5**	11.2	**–**	–
Amounts owed by subsidiaries	**–**	–	**1,280.7**	1,206.7
Other receivables	**2.4**	15.4	**–**	0.1
Prepayments	**15.7**	15.2	**1.3**	0.8
Sales and social security taxes	**–**	3.3	**–**	0.8
Accrued income	**9.4**	8.4	**0.1**	0.2
	32.0	53.5	**1,282.1**	1,208.6

	2014 £m	2013 £m
Group trade receivables are split as follows:		
less than three months due	**4.5**	11.1
between three and six months due	**–**	0.1
	4.5	11.2

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

	2014 £m	2013 £m
At 1 January	**0.7**	0.6
Additions	**0.1**	0.3
Released	**(0.2)**	(0.2)
At 31 December	**0.6**	0.7
The provision for bad debts is split as follows:		
less than six months due	**0.3**	0.5
between six and twelve months due	**0.2**	0.2
over twelve months due	**0.1**	–
	0.6	0.7

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

21 Non-current assets held for sale

	2014 £m	2013 £m
Investments	**–**	4.8

In February 2014, the Group conditionally exchanged contracts to sell its 25% interest in the Euro Mall Sterboholy a.s. joint venture in Prague for £5.4m before costs. In addition, as part of the transaction, a further £1.9m was received as repayment of a shareholder loan. As a result, this investment was recognised in non-current assets held for sale at 31 December 2013, in accordance with IFRS 5 Non-current Assets Held for Sale.

22 Trade and other payables

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Trade payables	**2.2**	8.9	**0.5**	1.3
Amounts owed to subsidiaries	**–**	–	**331.0**	269.2
Other payables	**12.8**	10.5	**1.0**	0.7
Sales and social security taxes	**4.2**	–	**2.3**	–
Accruals	**37.4**	28.1	**13.1**	11.2
Deferred income	**33.2**	36.1	**0.1**	0.4
	89.8	83.6	**348.0**	282.8

23 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	National insurance on share-based payments £m	Total £m
Group				
At 1 January 2014	0.9	0.2	1.3	2.4
Provided in the income statement	0.3	–	0.9	1.2
Provided in reserves	–	0.2	–	0.2
Utilised in year	(1.2)	(0.2)	(0.9)	(2.3)
At 31 December 2014	**–**	**0.2**	**1.3**	**1.5**
Due within one year	–	–	0.8	0.8
Due after one year	–	0.2	0.5	0.7
	–	**0.2**	**1.3**	**1.5**
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
Company				
At 1 January 2014	–	0.2	1.2	1.4
Provided in the income statement	–	–	0.8	0.8
Provided in reserves	–	0.2	–	0.2
Utilised in year	–	(0.2)	(0.7)	(0.9)
At 31 December 2014	**–**	**0.2**	**1.3**	**1.5**
Due within one year	–	–	0.8	0.8
Due after one year	–	0.2	0.5	0.7
	–	**0.2**	**1.3**	**1.5**
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

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

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.

24 Borrowings and derivative financial instruments

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Current liabilities				
2.75% unsecured convertible bonds 2016	**170.5**	–	**–**	–
Intercompany loan	**–**	–	**170.5**	–
	170.5	–	**170.5**	–
Non-current liabilities				
2.75% unsecured convertible bonds 2016	**–**	167.7	**–**	–
1.125% unsecured convertible bonds 2019	**137.5**	135.0	**–**	–
6.5% secured bonds 2026	**189.8**	190.6	**–**	–
4.41% unsecured private placement notes 2029	**24.7**	–	**24.7**	–
4.68% unsecured private placement notes 2034	**74.2**	–	**74.2**	–
3.99% secured loan 2024	**81.9**	81.8	**81.9**	81.8
Unsecured bank loan	**243.7**	281.1	**243.7**	281.1
Secured bank loans	**97.5**	97.3	**69.5**	69.3
Intercompany loans	**–**	–	**137.5**	302.7
	849.3	953.5	**631.5**	734.9
Gross debt	**1,019.8**	953.5	**802.0**	734.9
Leasehold liabilities	**8.3**	8.2	**–**	–
Borrowings	**1,028.1**	961.7	**802.0**	734.9
Derivative financial instruments expiring in greater than one year	**25.2**	15.9	**22.7**	13.9
Borrowings and derivative financial instruments	**1,053.3**	977.6	**824.7**	748.8
Reconciliation of borrowings to net debt:				
Borrowings	**1,028.1**	961.7	**802.0**	734.9
Cash and cash equivalents	**(14.8)**	(12.5)	**(14.2)**	(10.9)
Net debt	**1,013.3**	949.2	**787.8**	724.0

2.75% unsecured convertible bonds 2016

In June 2011 the Group issued its first convertible bond. This unsecured instrument paid a coupon of 2.75% until January 2015 when it was redeemed. The conversion price was £22.22 per share. In accordance with IAS 32, the equity and debt components of the bond have been 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 £135.71 per £100 as at 31 December 2014 (2013: £122.34 per £100). The carrying value at 31 December 2014 was £170.5m (2013: £167.7m).

In December 2014, the Group issued a notice for the early redemption of these bonds prior to 30 January 2015. All the bonds converted after the year end into new ordinary shares of 5p each and were subsequently cancelled. The bonds have therefore been included in current liabilities at 31 December 2014. See note 35 for further details.

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	(1.4)
Amortisation of fair value adjustment	6.5
Carrying amount included in borrowings	170.5

24 Borrowings and derivative financial instruments (continued)

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 £109.49 per £100 as at 31 December 2014 (2013: £100.48 per £100). The carrying value at 31 December 2014 was £137.5m (2013: £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	(2.7)
Amortisation of fair value adjustment	2.8
Carrying amount included in borrowings	137.5

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 unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2014 was determined by the ask-price of £129.94 per £100 (2013: £113.72 per £100). The carrying value at 31 December 2014 was £189.8m (2013: £190.6m).

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins. The references were a 6% 2028 gilt and a 4.25% 2032 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2014 were £24.7m (2013: £nil) and £74.2m (2013: £nil), respectively.

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 the reference gilt plus an implied margin. 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 2014 was £81.9m (2013: £81.8m).

Bank borrowings

The Group refinanced the majority of its bank loans in the open market in September 2013. In December 2014, an agreement was signed to amend and extend the £550m facility arranged in September 2013 with a reduced margin and a revised maturity. The margin charged on the amended £550m facility is close to the margin charged on the bank facilities not previously 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 2014	**–**	**–**	**20.0**	**–**	**–**	**301.0**	**321.0**
At 31 December 2013	–	–	–	20.0	263.0	–	283.0
Company							
At 31 December 2014	**–**	**–**	**20.0**	**–**	**–**	**301.0**	**321.0**
At 31 December 2013	–	–	–	20.0	263.0	–	283.0

Intercompany loans

The terms of the 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 loans have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value at 31 December 2014 was £308.0m (2013: £302.7m).

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 2014 for the period to the contracted expiry dates.

The Group also has a £70m forward starting interest rate swap effective from 30 March 2015. This swap is not included in the 31 December 2014 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 2014						
Interest rate swaps	283.0	2.84	4.0	255.0	2.77	3.9
At 31 December 2013						
Interest rate swaps	218.0	3.09	4.8	190.0	3.03	4.8

Secured and unsecured debt

	Group 2014 £m	2013 £m	**Company 2014 £m**	2013 £m
Secured				
6.5% secured bonds 2026	**189.8**	190.6	**–**	–
3.99% secured loan 2024	**81.9**	81.8	**81.9**	81.8
Secured bank loans	**97.5**	97.3	**69.5**	69.3
	369.2	369.7	**151.4**	151.1
Unsecured				
2.75% unsecured convertible bonds 2016	**170.5**	167.7	**–**	–
1.125% unsecured convertible bonds 2019	**137.5**	135.0	**–**	–
4.41% unsecured private placement notes 2029	**24.7**	–	**24.7**	–
4.68% unsecured private placement notes 2034	**74.2**	–	**74.2**	–
Unsecured bank loan	**243.7**	281.1	**243.7**	281.1
Intercompany loans	**–**	–	**308.0**	302.7
	650.6	583.8	**650.6**	583.8
Gross debt	**1,019.8**	953.5	**802.0**	734.9

At 31 December 2014, the Group's secured bank loans and the 3.99% secured loan were secured by a fixed charge over £475.7m (2013: £380.2m) and £225.2m (2013: £194.8m), 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 £749.2m (2013: £634.1m) of the Group's properties.

At 31 December 2014, the Company's secured bank loan and the 3.99% secured loan were secured by a fixed charge over £346.6m (2013: £268.2m) and £225.2m (2013: £194.8m), respectively, of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2014 and 2013, the Group's fixed rate and hedged debt included the unsecured convertible bonds 2016, the unsecured convertible bonds 2019, the secured bonds 2026, a secured loan 2024 and the hedged bank debt. Additionally, at 31 December 2014, it also comprised unsecured private placement notes maturing in 2029 and 2034 which were drawn down during the year. At 31 December 2014 and 2013, the Company's fixed rate debt comprised the instruments used to hedge its floating rate debt, a secured loan 2024 and the intercompany loans. Additionally, at 31 December 2014, it also comprised the unsecured private placement notes maturing in 2029 and 2034, drawn in 2014.

24 Borrowings and derivative financial instruments (continued)

Interest rate exposure

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average interest rate[1] %	Weighted average life Years
Group						
At 31 December 2014						
2.75% unsecured convertible bonds 2016	–	–	170.5	170.5	3.99	0.1
1.125% unsecured convertible bonds 2019	–	–	137.5	137.5	2.67	4.6
6.5% secured bonds 2026	–	–	189.8	189.8	6.50	11.2
4.41% unsecured private placement notes 2029	–	–	24.7	24.7	4.41	14.0
4.68% unsecured private placement notes 2034	–	–	74.2	74.2	4.68	19.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	9.8
Unsecured bank loan	62.6	181.1	–	243.7	3.47	5.0
Secured bank loans	–	97.5	–	97.5	4.61	3.1
	62.6	**278.6**	**678.6**	**1,019.8**	**4.22**	**6.6**
At 31 December 2013						
2.75% unsecured convertible bonds 2016	–	–	167.7	167.7	3.99	2.5
1.125% unsecured convertible bonds 2019	–	–	135.0	135.0	2.67	5.6
6.5% secured bonds 2026	–	–	190.6	190.6	6.50	12.2
3.99% secured loan 2024	–	–	81.8	81.8	3.99	10.8
Unsecured bank loan	163.6	117.5	–	281.1	3.32	4.7
Secured bank loans	–	97.3	–	97.3	4.63	4.1
	163.6	214.8	575.1	953.5	4.10	6.3
Company						
At 31 December 2014						
4.41% unsecured private placement notes 2029	–	–	24.7	24.7	4.41	14.0
4.68% unsecured private placement notes 2034	–	–	74.2	74.2	4.68	19.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	9.8
Unsecured bank loan	62.6	181.1	–	243.7	3.47	5.0
Secured bank loan	–	69.5	–	69.5	4.73	3.0
Intercompany loans	–	–	308.0	308.0	3.38	2.2
	62.6	**250.6**	**488.8**	**802.0**	**3.73**	**5.7**
At 31 December 2013						
3.99% secured loan 2024	–	–	81.8	81.8	3.99	10.8
Unsecured bank loan	163.6	117.5	–	281.1	3.32	4.7
Secured bank loans	–	69.3	–	69.3	4.74	4.0
Intercompany loans	–	–	302.7	302.7	3.38	3.9
	163.6	186.8	384.5	734.9	3.55	5.0

[1] The weighted average interest rates are based on the nominal amounts of the debt facilities.

Contractual 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 contractual 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 2014							
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
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	–	249.0	249.0
Secured bank loans	–	–	70.0	28.0	–	–	98.0
Total on maturity	175.0	–	70.0	28.0	150.0	607.0	1,030.0
Leasehold liabilities	0.5	0.5	0.5	0.5	0.5	61.5	64.0
Interest on gross debt	30.9	30.1	31.3	29.3	29.3	152.1	303.0
Effect of interest rate swaps	7.6	6.6	5.3	3.2	2.4	0.7	25.8
Gross loan commitments	**214.0**	**37.2**	**107.1**	**61.0**	**182.2**	**821.3**	**1,422.8**
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
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Secured bank loans	–	–	–	70.0	28.0	–	98.0
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

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 2014						
Maturing in:						
< 1 year	214.0	(30.9)	(7.6)	(0.5)	(4.5)	170.5
1 to 2 years	37.2	(30.1)	(6.6)	(0.5)	–	–
2 to 3 years	107.1	(31.3)	(5.3)	(0.5)	(0.4)	69.6
3 to 4 years	61.0	(29.3)	(3.2)	(0.5)	–	28.0
4 to 5 years	182.2	(29.3)	(2.4)	(0.5)	(12.5)	137.5
> 5 years	821.3	(152.1)	(0.7)	(53.2)	7.2	622.5
	1,422.8	**(303.0)**	**(25.8)**	**(55.7)**	**(10.2)**	**1,028.1**
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

24 Borrowings and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2014							
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	–	249.0	249.0
Secured bank loan	–	–	70.0	–	–	–	70.0
Intercompany loans	175.0	–	–	–	150.0	–	325.0
Total on maturity	175.0	–	70.0	–	150.0	432.0	827.0
Interest on debt	19.1	18.1	19.3	17.6	18.0	78.1	170.2
Effect of interest rate swaps	6.9	5.9	4.7	2.7	2.3	0.7	23.2
Gross loan commitments	**201.0**	**24.0**	**94.0**	**20.3**	**170.3**	**510.8**	**1,020.4**
At 31 December 2013							
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Secured bank loan	–	–	–	70.0	–	–	70.0
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

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 2014						
Maturing in:						
< 1 year	201.0	(19.1)	(6.9)	–	(4.5)	170.5
1 to 2 years	24.0	(18.1)	(5.9)	–	–	–
2 to 3 years	94.0	(19.3)	(4.7)	–	(0.4)	69.6
3 to 4 years	20.3	(17.6)	(2.7)	–	–	–
4 to 5 years	170.3	(18.0)	(2.3)	–	(12.5)	137.5
> 5 years	510.8	(78.1)	(0.7)	–	(7.6)	424.4
	1,020.4	**(170.2)**	**(23.2)**	**–**	**(25.0)**	**802.0**
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

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.

	2014 Receivable £m	2014 Payable £m	2013 Receivable £m	2013 Payable £m
Group				
Maturing in:				
< 1 year	**2.6**	**(10.2)**	2.4	(9.1)
1 to 2 years	**4.2**	**(10.8)**	5.6	(10.8)
2 to 3 years	**5.3**	**(10.6)**	8.6	(10.8)
3 to 4 years	**4.2**	**(7.4)**	10.0	(10.1)
4 to 5 years	**3.6**	**(6.0)**	8.1	(7.4)
> 5 years	**1.1**	**(1.8)**	7.6	(6.9)
Gross contractual cash flows	**21.0**	**(46.8)**	42.3	(55.1)
Company				
Maturing in:				
< 1 year	**2.3**	**(9.2)**	2.2	(8.1)
1 to 2 years	**3.9**	**(9.8)**	5.2	(9.8)
2 to 3 years	**4.9**	**(9.6)**	7.9	(9.8)
3 to 4 years	**3.7**	**(6.4)**	9.2	(9.1)
4 to 5 years	**3.4**	**(5.7)**	7.2	(6.4)
> 5 years	**1.1**	**(1.8)**	7.4	(6.7)
Gross contractual cash flows	**19.3**	**(42.5)**	39.1	(49.9)

Financial instruments – risk management
The Group is exposed through its operations to the following financial risks:

- credit risk;
- market 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 22 to 27 and page 87.

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 years.

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

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

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.

24 Borrowings and derivative financial instruments (continued)

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 a 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 20.

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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk arises for the Group from its use of variable interest bearing instruments (interest rate risk).

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.3m (2013: £0.8m) or a decrease of £0.3m (2013: £0.8m).

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 2014, the proportion of fixed debt held by the Group was above this range at 94% (2013: 83%). During both 2014 and 2013, the Group's borrowings at variable rate were denominated in sterling.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. The Group generally raises long-term borrowings at fixed rates.

Liquidity risk

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

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

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

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

Capital disclosures

The Group's capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and non-controlling 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 vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, 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 loan-to-value ratio. During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined at the end of this announcement and are derived in note 40.

25 Financial assets and liabilities and fair values

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	–	14.8	–	14.8
Other assets – current[1]	–	16.3	–	16.3
	–	31.1	–	31.1
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(170.5)	(170.5)
1.125% unsecured convertible bonds 2019	–	–	(137.5)	(137.5)
6.5% secured bonds 2026	–	–	(189.8)	(189.8)
4.41% unsecured private placement notes 2029	–	–	(24.7)	(24.7)
4.68% unsecured private placement notes 2034	–	–	(74.2)	(74.2)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(341.2)	(341.2)
Leasehold liabilities	–	–	(8.3)	(8.3)
Derivative financial instruments	(25.2)	–	–	(25.2)
Other liabilities – current[2]	–	–	(52.4)	(52.4)
	(25.2)	–	(1,080.5)	(1,105.7)
At 31 December 2014	**(25.2)**	**31.1**	**(1,080.5)**	**(1,074.6)**
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)

25 Financial assets and liabilities and fair values (continued)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	14.2	–	14.2
Other assets – current[1]	–	1,280.8	–	1,280.8
	–	1,295.0	–	1,295.0
Financial liabilities				
4.41% unsecured private placement notes 2029	–	–	(24.7)	(24.7)
4.68% unsecured private placement notes 2034	–	–	(74.2)	(74.2)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(313.2)	(313.2)
Intercompany loans	–	–	(308.0)	(308.0)
Derivative financial instruments	(22.7)	–	–	(22.7)
Other liabilities – current[2]	–	(331.0)	(14.6)	(345.6)
	(22.7)	(331.0)	(816.6)	(1,170.3)
At 31 December 2014	**(22.7)**	**964.0**	**(816.6)**	**124.7**
Financial assets				
Cash and cash equivalents	–	10.9	–	10.9
Other assets – current[1]	–	1,207.0	–	1,207.9
	–	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)
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

[1] Other assets includes all amounts shown as trade and other receivables in note 20 except prepayments of £15.7m for the Group and £1.3m for the Company in 2014, and prepayments and social security taxes of £18.5m for the Group and £1.6m for the Company in 2013. 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 22 except deferred income and sales and social security taxes of £33.2m for the Group and of £36.1m for the Company in 2014, and deferred income of £0.1m for the Group and £0.4m for the Company in 2013. 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 2014 £m	2013 £m	**Company 2014 £m**	2013 £m
Net financial assets and liabilities	**(1,074.6)**	(977.6)	**124.7**	186.7
Other assets – current	**(16.3)**	(35.0)	**(1,280.8)**	(1,207.0)
Other liabilities – current	**52.4**	47.5	**345.6**	282.4
Cash and cash equivalents	**(14.8)**	(12.5)	**(14.2)**	(10.9)
Borrowings and derivative financial instruments	**(1,053.3)**	(977.6)	**(824.7)**	(748.8)

Fair value measurement

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 24.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2014					
2.75% unsecured convertible bonds 2016	(170.5)	(234.4)	–	–	Level 1
1.125% unsecured convertible bonds 2019	(137.5)	(154.5)	–	–	Level 1
6.5% secured bonds 2026	(189.8)	(227.4)	–	–	Level 1
4.41% unsecured private placement notes 2029	(24.7)	(27.6)	(24.7)	(27.6)	Level 2
4.68% unsecured private placement notes 2034	(74.2)	(83.5)	(74.2)	(83.5)	Level 2
3.99% secured loan 2024	(81.9)	(84.1)	(81.9)	(84.1)	Level 2
Bank borrowings due after one year	(341.2)	(347.0)	(313.2)	(318.5)	Level 2
Intercompany loans	–	–	(308.0)	(388.9)	Level 2
Derivative financial instruments	(25.2)	(25.2)	(22.7)	(22.7)	Level 2
	(1,045.0)	(1,183.7)	(824.7)	(925.3)	
Amounts not fair valued:					
Cash and cash equivalents	14.8		14.2		
Other assets – current	16.3		1,280.8		
Leasehold liabilities	(8.3)		–		
Other liabilities – current	(52.4)		(345.6)		
Net financial assets and liabilities	**(1,074.6)**		**124.7**		
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
Intercompany loans	–	–	(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		

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2014 or 2013.

26 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2014	5.5	(4.5)	1.0
Charged to the income statement	1.0	2.2	3.2
Change in tax rates in the income statement	(0.2)	0.1	(0.1)
Charged to other comprehensive income	0.9	–	0.9
At 31 December 2014	**7.2**	**(2.2)**	**5.0**
At 1 January 2013	4.1	(4.6)	(0.5)
Charged/(credited) to the income statement	1.6	(0.3)	1.3
Change in tax rates in the income statement	(0.3)	0.4	0.1
Charged to other comprehensive income	0.2	–	0.2
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
At 31 December 2013	5.5	(4.5)	1.0
Company			
At 1 January 2014	–	(4.3)	(4.3)
Charged to the income statement	–	2.0	2.0
Change in tax rates in the income statement	–	0.1	0.1
At 31 December 2014	**–**	**(2.2)**	**(2.2)**
At 1 January 2013	–	(4.3)	(4.3)
Credited to the income statement	–	(0.4)	(0.4)
Change in tax rates in the income statement	–	0.4	0.4
At 31 December 2013	–	(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 at each balance sheet date. The calculation takes account of any available indexation on the historic cost of the properties. Due to the Group's REIT status, deferred tax is only provided at each balance sheet date on properties outside the REIT regime.

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

27 Equity

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 2013	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
Issued as a result of scrip dividends	74,482
Issued as a result of awards vesting under the Group's Performance Share Plan	135,159
Issued as a result of the exercise of share options[1]	97,745
At 31 December 2014	**102,784,968**

[1] Proceeds from these issues were £1.5m (2013: £0.4m).

The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 93 to 110 and note 13.

In January 2015, 7,875,776 new 5p ordinary shares were issued following the conversion of the 2.75% unsecured convertible bonds 2016. See note 35 for further details.

28 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). At 31 December 2013, the Company balance also included 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 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 together with other items such as dividends and share-based payments.

Other reserves

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Merger reserve	**910.5**	910.5	**910.5**	625.0
Revaluation reserve	**15.6**	11.7	**–**	–
Equity portion of the convertible bonds	**21.7**	21.7	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**21.7**	21.7
Fair value of equity instruments under share-based payments	**4.7**	4.7	**4.7**	4.7
	952.5	948.6	**936.9**	651.4

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

Profit for the year includes a profit of £251.6m (2013: £205.6m) generated by the Company. 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.

30 Dividends

		Dividend per share				
	Payment date	PID p	Non-PID p	Total p	2014 £m	2013 £m
Current year						
2014 final dividend	12 June 2015	22.35	5.65	28.00	**–**	–
2014 interim dividend	23 October 2014	7.30	4.35	11.65	**12.0**	–
Distribution of current year profit		29.65	10.00	39.65	**12.0**	–
Prior year						
2013 final dividend	13 June 2014	23.50	2.25	25.75	**26.4**	–
2013 interim dividend	24 October 2013	6.00	4.75	10.75	**–**	10.9
Distribution of prior year profit		29.50	7.00	36.50	**26.4**	10.9
2012 final dividend	14 June 2013	18.75	5.00	23.75	**–**	24.3
Dividends as reported in the Group statement of changes in equity					**38.4**	35.2
2014 interim dividend withholding tax	14 January 2015				**(1.0)**	–
2014 interim scrip dividend	23 October 2014				**(1.0)**	–
2013 final scrip dividend	13 June 2014				**(1.1)**	–
2013 interim dividend withholding tax	14 January 2014				**0.9**	(0.9)
2013 interim scrip dividend	24 October 2013				**–**	(1.2)
2012 final scrip dividend	14 June 2013				**–**	(3.5)
2012 interim dividend withholding tax	14 January 2013				**–**	1.5
Dividends paid as reported in the Group cash flow statement					**36.2**	31.1

31 Cash and cash equivalents

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Cash at bank	**14.8**	12.5	**14.2**	10.9

32 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2014 and not provided for in the accounts amounted to £136.2m (2013: £43.0m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties. At 31 December 2014 and 31 December 2013, there were no obligations for the purchase, repair or maintenance of investment properties.

33 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2014 and 31 December 2013, 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.

34 Leases

	2014 £m	2013 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**138.8**	122.3
later than one year and not later than five years	**455.0**	411.1
later than five years	**630.9**	658.6
	1,224.7	1,192.0

	2014 £m	2013 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**0.5**	0.5
later than one year and not later than five years	**2.0**	2.0
later than five years	**61.5**	62.3
	64.0	64.8
Future contingent rent payable on finance leases	**(16.6)**	(17.0)
Future finance charges on finance leases	**(39.1)**	(39.6)
Present value of finance lease liabilities	**8.3**	8.2
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**0.1**	–
later than five years	**8.2**	8.2
	8.3	8.2

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

	2014 £m	2013 £m
Finance charge	**0.5**	0.5
Contingent rent	**0.4**	0.4
Total	**0.9**	0.9

The Group has over 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 2014 was 9.4 years (2013: 13.8 years). Of these leases, on a weighted average basis, 91% (2013: 90%) included a rent free or half rent period.

35 Post balance sheet events

In February 2015, the Group unconditionally exchanged a contract to acquire a minimum 175-year long leasehold of 20 Farringdon Road EC1. In return the Group has disposed of two properties, 22 Kingsway WC2 for £64.5m and Mark Square House EC2 for £32.1m, plus a 50% interest in a newly formed joint venture into which 9 and 16 Prescot Street E1 has been transferred. The price of the acquisition was £88.0m before costs and the combined disposal proceeds were £115.3m. The properties disposed of by the Group have not been included in non-current assets held for sale as management was not committed to a plan to sell them at 31 December 2014.

Further to the announcement made in December 2014 for early redemption of the 2.75% unsecured convertible bonds 2016, the Group received notices from 100% of the bondholders in January 2015 confirming that they would be taking up their options to convert in full. This subsequently led to the cancellation of the bonds and the issue of 7,875,776 new 5p ordinary shares.

36 Principal operating companies

The principal operating companies within the Group at 31 December 2014 were:

	Ownership[2]	Principal activity
Subsidiaries		
BBR Property Limited[1]	100%	Property trading
Derwent London Charlotte Street Limited[1]	100%	Property trading
Caledonian Properties Limited	100%	Property investment
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 Angel Square Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London KSW Limited	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
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
Joint venture		
Primister Limited	50%	Property investment

[1] Indicates subsidiary undertakings held directly.

[2] All holdings are of ordinary shares.

The Company has taken advantage of the exemption in s410 of the Companies Act 2006 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 undertakings shown principally affect the figures in the Group's accounts.

The Company controls 50% of the voting rights of its joint venture, which is accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

All of the above companies are registered and operate in England and Wales except for Derwent London Capital (Jersey) Limited and Derwent London Capital No. 2 (Jersey) Limited which are registered in Jersey.

37 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 93 to 110 and note 11. 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 (2013: £0.3m). The Group also contributed £0.1m (2013: £0.1m) to LMS Capital plc's running costs.

During the year, the Group paid fees, at a commercial rate, of £12,500 (2013: £nil) in respect of interior design services to Mrs R. Silver, the wife of Mr S.P. Silver.

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

At 31 December 2014, included within other receivables in note 20 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £2.0m (2013: £15.1m).

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)	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Related party						
22 Kingsway Limited	**–**	–	**–**	–	**(33.5)**	25.3
BBR (Commercial) Limited	**–**	–	**–**	–	**0.9**	–
BBR Property Limited	**0.8**	0.4	**–**	–	**8.1**	14.6
Derwent Asset Management Limited	**–**	–	**–**	–	**(0.1)**	–
Derwent Central Cross Limited	**8.6**	7.9	**–**	–	**189.5**	169.4
Derwent Henry Wood Limited	**2.3**	2.4	**–**	–	**48.9**	49.0
Derwent London Angel Square Limited	**0.3**	–	**–**	–	**77.4**	–
Derwent London Capital (Jersey) Limited[1]	**(6.7)**	(6.6)	**–**	–	**(170.4)**	(167.6)
Derwent London Capital No. 2 (Jersey) Limited[2]	**(3.7)**	(1.6)	**–**	–	**(137.4)**	(134.9)
Derwent London Charlotte Street (Commercial) Limited	**–**	–	**–**	–	**0.2**	–
Derwent London Charlotte Street Limited	**0.5**	0.1	**–**	–	**12.7**	8.7
Derwent London Grafton Limited	**1.7**	1.8	**–**	–	**35.0**	35.4
Derwent London Howland Limited	**6.0**	6.4	**–**	–	**127.5**	128.3
Derwent London KSW Limited	**2.7**	–	**–**	–	**57.8**	–
Derwent London Page Street Limited	**1.0**	0.9	**–**	–	**20.6**	21.0
Derwent Valley Central Limited	**(4.4)**	(0.3)	**–**	–	**23.4**	100.0
Derwent Valley London Limited	**5.8**	5.9	**–**	20.0	**145.2**	143.2
Derwent Valley Property Developments Limited	**9.9**	(1.3)	**–**	–	**93.9**	93.2
Derwent Valley Property Investments Limited	**(4.1)**	(4.0)	**–**	30.0	**(57.4)**	(53.6)
Derwent Valley Railway Company[3]	**–**	–	**–**	–	**(0.2)**	(0.2)
Derwent Valley West End Limited	**0.1**	–	**–**	–	**2.4**	(0.1)
London Merchant Securities Limited[4]	**9.6**	7.7	**–**	210.0	**197.2**	203.1
	30.4	19.7	**–**	260.0	**641.7**	634.8

[1] The payable balance at 31 December 2014 includes the intercompany loan of £170.5m (2013: £167.7m) included in note 24.
[2] The payable balance at 31 December 2014 includes the intercompany loan of £137.5m (2013: £135.0m) included in note 24.
[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 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.

38 EPRA performance measures

Summary table

	2014		2013	
		Pence per share p		Pence per share p
EPRA earnings	**£58.6m**	**57.08**	£55.1m	53.87
EPRA net asset value	**£3,232.0m**	**2,908**	£2,509.9m	2,264
EPRA triple net asset value	**£3,112.1m**	**2,800**	£2,463.2m	2,222
EPRA vacancy rate	**4.1%**		1.0%	
EPRA cost ratio (including direct vacancy costs)	**24.2%**		25.1%	
EPRA net initial yield	**3.4%**		4.2%	
EPRA 'topped-up' net initial yield	**4.0%**		4.8%	

The definition of these measures can be found on page 172.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2014 '000	2013 '000	**2014 '000**	2013 '000
For use in basic measures	**102,658**	102,284	**102,785**	102,478
Dilutive effect of convertible bonds	**12,373**	9,848	**7,876**	7,876
Dilutive effect of share-based payments	**456**	486	**477**	500
For use in measures for which bond conversion is dilutive	**115,487**	112,618	**111,138**	110,854
Less dilutive effect of convertible bonds	**(12,373)**	(9,848)	**(7,876)**	(7,876)
For use in other diluted measures	**103,114**	102,770	**103,262**	102,978

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. In accordance with IAS 33 Earnings per Share, the effect of the conversion of the bonds is required to be recognised if they are dilutive, and not recognised if they are anti-dilutive.

For 2014 and 2013, the shares attributable to the conversion of the 2016 bonds were dilutive for net asset value (NAV) and EPRA NAV per share and unadjusted earnings per share but anti-dilutive for EPRA earnings per share.

For 2014 and 2013, the shares attributable to the conversion of the 2019 bonds were dilutive for unadjusted earnings per share but anti-dilutive for EPRA earnings per share and all NAV per share measures.

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

Cost ratio

	2014 £m	2013 £m
Administrative expenses	**28.1**	26.4
Other property costs	**6.4**	6.9
Dilapidation receipts	**(0.2)**	(0.1)
Net service charge costs	**1.2**	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.5)**	(0.3)
Management fees received less estimated profit element	**(2.0)**	(2.0)
Share of joint ventures' expenses	**0.1**	0.4
EPRA costs (including direct vacancy costs) (A)	**33.1**	33.2
Direct vacancy costs	**(1.8)**	(3.4)
EPRA costs (excluding direct vacancy costs) (B)	**31.3**	29.8
Gross rental income	**136.7**	130.9
Ground rent	**(0.4)**	(0.4)
Service charge components of rental income	**(0.5)**	(0.3)
Share of joint ventures' rental income less ground rent	**0.8**	1.9
Adjusted gross rental income (C)	**136.6**	132.1
EPRA cost ratio (including direct vacancy costs) (A/C)	**24.2%**	25.1%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**22.9%**	22.6%

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

Property portfolio at fair value (D)	**4,168.1**	3,353.1
Portfolio cost ratio (A/D)	**0.8%**	1.0%

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

38 EPRA performance measures (continued)

Profit before tax and earnings per share

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

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

		Adjustments				
	IFRS £m	A £m	B £m	C £m	D £m	EPRA £m
Year ended 31 December 2014						
Net property and other income	136.1	(3.9)	–	–	–	132.2
Total administrative expenses	(28.4)	–	–	–	0.3	(28.1)
Revaluation surplus	667.1	–	(667.1)	–	–	–
Profit on disposal of investment property	28.2	(28.2)	–	–	–	–
Profit on disposal of investment	2.0	(2.0)	–	–	–	–
Net finance costs	(42.4)	–	–	–	–	(42.4)
Movement in fair value of derivative financial instruments	(9.4)	–	–	9.4	–	–
Financial derivative termination costs	(2.0)	–	–	2.0	–	–
Share of results of joint ventures	2.5	–	(1.9)	–	–	0.6
Profit before tax	**753.7**	**(34.1)**	**(669.0)**	**11.4**	**0.3**	**62.3**
Tax charge	(3.9)	1.0	1.2	–	–	(1.7)
Profit for the year	749.8	(33.1)	(667.8)	11.4	0.3	60.6
Non-controlling interest	(12.1)	–	10.4	(0.3)	–	(2.0)
Profit for the year attributable to equity shareholders	737.7	(33.1)	(657.4)	11.1	0.3	58.6
Interest effect of dilutive convertible bonds	10.4	–	–	–	(10.4)	–
Diluted earnings	**748.1**	**(33.1)**	**(657.4)**	**11.1**	**(10.1)**	**58.6**
Earnings per share	**718.60p**					**57.08p**
Diluted earnings per share	647.78p					56.83p
Year ended 31 December 2013						
Net property and other income	124.3	–	–	–	–	124.3
Total administrative expenses	(26.7)	–	–	–	0.3	(26.4)
Revaluation surplus	335.6	–	(335.6)	–	–	–
Profit on disposal of investment property	53.5	(53.5)	–	–	–	–
Net finance costs	(44.4)	–	–	–	3.2	(41.2)
Movement in fair value of derivative financial instruments	38.5	–	–	(38.5)	–	–
Financial derivative termination costs	(13.7)	–	–	13.7	–	–
Share of results of joint ventures	0.8	–	0.3	–	–	1.1
Profit before tax	467.9	(53.5)	(335.3)	(24.8)	3.5	57.8
Tax charge	(2.4)	–	1.3	–	–	(1.1)
Profit for the year	465.5	(53.5)	(334.0)	(24.8)	3.5	56.7
Non-controlling interest	(8.9)	0.1	6.2	1.0	–	(1.6)
Profit for the year attributable to equity shareholders	456.6	(53.4)	(327.8)	(23.8)	3.5	55.1
Interest effect of dilutive convertible bonds	8.2	–	–	–	(8.2)	–
Diluted earnings	464.8	(53.4)	(327.8)	(23.8)	(4.7)	55.1
Earnings per share	446.40p					53.87p
Diluted earnings per share	412.72p					53.61p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2014			
Net assets attributable to equity shareholders – diluted	3,182.7		2,864
Remove conversion of 2.75% unsecured convertible bonds 2016	(170.5)		
Net assets attributable to equity shareholders – undiluted	3,012.2	2,931	
Adjustment for:			
Revaluation of trading properties net of tax	4.1		
Deferred tax on revaluation surplus	7.2		
Fair value of derivative financial instruments	25.2		
Fair value adjustment to secured bonds	16.0		
Non-controlling interest in respect of the above	(3.2)		
EPRA net asset value – undiluted	3,061.5	2,979	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	170.5		
EPRA net asset value – diluted	**3,232.0**		**2,908**
Adjustment for:			
Deferred tax on revaluation surplus	(7.2)		
Fair value of derivative financial instruments	(25.2)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(14.2)		
Mark-to-market of secured bonds	(52.4)		
Mark-to-market of fixed rate secured loan	(1.1)		
Mark-to-market of fixed rate unsecured private placement notes	(11.1)		
Unamortised issue and arrangement costs	(11.9)		
Non-controlling interest in respect of the above	3.2		
EPRA triple net asset value – diluted	**3,112.1**		**2,800**
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(170.5)		
Unamortised issue and arrangement costs	(1.4)		
Mark-to-market of bonds	(62.5)		
EPRA triple net asset value – undiluted	2,877.7	2,800	
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 net of tax	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		
Non-controlling interest in respect of the above	(2.2)		
EPRA net asset value – undiluted	2,342.2	2,286	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	167.7		
EPRA net asset value – diluted	2,509.9		2,264
Adjustment for:			
Deferred tax on revaluation surplus	(5.5)		
Fair value of derivative financial instruments	(15.9)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	0.1		
Mark-to-market of secured bonds	(24.0)		
Mark-to-market of fixed rate secured loan	8.7		
Unamortised issue and arrangement costs	(12.3)		
Non-controlling interest in respect of the above	2.2		
EPRA triple net asset value – diluted	2,463.2		2,222
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(167.7)		
Unamortised issue and arrangement costs	(2.3)		
Mark-to-market of bonds	(34.5)		
EPRA triple net asset value – undiluted	2,258.7	2,204	

38 EPRA performance measures (continued)

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

	2014 £m	2013 £m
Property portfolio – wholly owned	**4,168.1**	3,353.1
Share of joint ventures	**10.5**	21.6
Less non-EPRA properties[1]	**(679.8)**	(645.2)
Completed property portfolio	**3,498.8**	2,729.5
Allowance for:		
Estimated purchasers' costs	**202.9**	158.3
Estimated costs to complete	**0.1**	0.4
EPRA property portfolio valuation (A)	**3,701.8**	2,888.2
Annualised contracted rental income, net of ground rents	**131.7**	126.0
Share of joint ventures	**0.8**	1.9
Less non-EPRA properties[1]	**(7.6)**	(9.2)
Add outstanding rent reviews	**2.2**	2.5
Less estimate of non-recoverable expenses	**(1.9)**	(1.3)
	(7.3)	(8.0)
Current income net of non-recoverable expenses (B)	**125.2**	119.9
Contractual rental increases across the portfolio	**32.0**	30.0
Less non-EPRA properties[1]	**(9.3)**	(10.1)
Contractual rental increases across the EPRA portfolio	**22.7**	19.9
'Topped-up' net annualised rent (C)	**147.9**	139.8
EPRA net initial yield (B/A)	**3.4%**	4.2%
EPRA 'topped-up' net initial yield (C/A)	**4.0%**	4.8%

Vacancy rate

	2014 £m	2013 £m
Annualised estimated rental value of vacant premises	**7.1**	1.5
Portfolio estimated rental value	**216.5**	198.9
Less non-EPRA properties[1]	**(43.9)**	(47.8)
	172.6	151.1
EPRA vacancy rate	**4.1%**	1.0%

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

39 Total return

	2014 p	2013 p
EPRA net asset value on a diluted basis		
At end of year	**2,908.00**	2,264.00
At start of year	**(2,264.00)**	(1,886.00)
Increase	**644.00**	378.00
Dividend per share	**37.40**	34.50
Increase including dividend	**681.40**	412.50
Total return	**30.1%**	21.9%

40 Gearing and interest cover

NAV gearing

	2014 £m	2013 £m
Net debt	**1,013.3**	949.2
Net assets	**3,075.7**	2,370.5
NAV gearing	**32.9%**	40.0%

Loan-to-value ratio

	2014 £m	2013 £m
Net debt	**1,013.3**	949.2
Fair value adjustment of secured bonds	**(16.0)**	(16.9)
Unamortised issue and arrangement costs	**13.3**	14.6
Leasehold liabilities	**(8.3)**	(8.2)
Drawn debt net of cash	**1,002.3**	938.7
Fair value of property portfolio	**4,168.1**	3,353.1
Loan-to-value ratio	**24.0%**	28.0%

Net interest cover ratio

	2014 £m	2013 £m
Net property and other income	**136.1**	124.3
Other income	**(2.0)**	(2.0)
Other property income	**(1.6)**	–
Net surrender premiums received	**(0.1)**	(0.7)
Profit on disposal of trading properties	**(3.9)**	–
Reverse surrender premiums	**0.4**	0.2
Adjusted net property income	**128.9**	121.8
Finance income	**–**	(0.2)
Finance costs	**42.4**	41.4
	42.4	41.2
Adjustments for:		
Finance income	**–**	0.2
Other finance costs	**(0.2)**	(0.3)
Amortisation of fair value adjustment to secured bonds	**0.9**	0.9
Amortisation of issue and arrangement costs	**(3.3)**	(3.2)
Finance costs capitalised	**5.3**	4.8
Net interest payable	**45.1**	43.6
Net interest cover ratio	**286%**	279%

41 Significant accounting policies

Basis of consolidation

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

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that 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 IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. 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.

41 Significant accounting policies (continued)

Gross property income

Gross property income arises from two main sources:

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

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease 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 the 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.

(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 independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

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

(ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, 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 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.

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.

41 Significant accounting policies (continued)

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 because the Group does not apply hedge accounting.

(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.

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.