A keen eye for opportunity

Annual Report 2010

DEVELOPMENT SECURITIES PLC

ww7.investorrelations.co.uk/devsec/ar10

Development Securities PLC is a property development and investment company. Our principal objective is to identify and manage substantial, complex developments and create maximum value for our shareholders.

Creating maximum value in a difficult market

Contents

Net assets

£333.1m

Total comprehensive income for the year was a small negative of £0.7 million. After dividend payments of £3.9 million and proceeds from sale of shares of £93.7 million, net assets increased by £89.1 million.

Net gearing

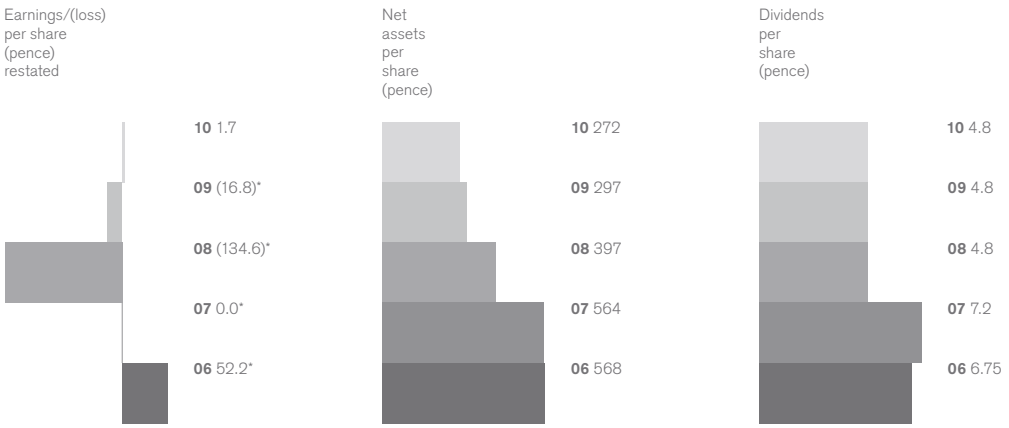
27.7%

Gearing has risen from 11 per cent immediately following the Placing and Rights Issue in August, trending towards our efficient level of 50–60 per cent as we invest the proceeds.

Net debt

£71.4m

Weighted average maturity of debt is 9.3 years, with the earliest maturity in respect of longer-term assets being 2013.



*Restated following the Placing and Rights Issue.

Adapting to current market conditions to improve returns

David Jenkins
Chairman

"We believe that those property businesses such as ourselves with equity able to invest in the near-term into the markets should be able to transact at favourable levels of return.

I am pleased to be able to report a further significant improvement in the fortunes of your Company in 2010.

We achieved a profit before tax of £2.6 million as compared to a loss before tax of £11.4 million for the previous year. No less significantly, shareholders' funds benefited from the £100.2 million issue of new equity during the year, ending the year at £333.1 million, an increase of £89.1 million compared with the position at the end of 2009. Net assets per share ended the year at 272 pence, compared to 297 pence at the end of 2009 and 270 pence immediately following the share issue.

It is pleasing to be able to report in a period of considerable economic uncertainty and with subdued forecasts for economic growth in both the near and medium-term, that Development Securities has been able to grow its business so substantially. This could not have been done without shareholder support and we remain grateful for the confidence you have shown in us. Strategically, we have maintained a consistent business model over the last 15 years or so, especially with regard to the management of our risk profile. It was this prudent strategy that enabled the business to survive the acute stresses of recent years. On the other hand, there have been recent tactical changes in our approach to the market which we believe will assist us in capturing improved returns.

Given our enhanced financial strength and stability, the Board has recommended the payment of a final dividend for the year of 2.4 pence per share payable on 6th July 2011 to shareholders on the register on 3rd June 2011. This brings the total dividend payment for the year to 4.8 pence per share, equivalent to that paid in respect of the previous year.

The first step change in the level of our business occurred when we raised equity of £100.0 million in July 2009, which subsequently proved to be the low point of the real estate markets. As we had intended, we have now deployed this capital into the market, together with appropriate leverage where applicable and none of it was utilised to pay down debt. Since July 2009, the Investment Property Databank Index (IPD) had shown a recovery in capital values of 8.8 per cent to December 2009. The increase of this Index in calendar 2010 was 8.3 per cent. Accordingly, by the end of the year, the markets which had fallen originally by some 44 per cent from their peak in 2007 had recovered 18.1 per cent from that low point.

The second recent step change occurred twelve months later with our next equity raise of £100.2 million in July 2010. The proposition this time was different; we had identified early in 2010 that the recovery in the banking sector was likely to be a long and drawn out process and that, until the banks' balance sheets, capital ratios and reserves were properly reinstated, there would be a continuing reluctance of the banks to advance fresh capital to the real estate sector. Indeed, subsequent events have borne this out and it is noticeable that, probably for the first time, the amount of net new bank lending to the property sector has been negative for six consecutive quarters. Notwithstanding this withdrawal of capital, the proportion of commercial property loans to the total loan books of the banks is still uncomfortably high and we anticipate that the banks' relative inability to provide fresh capital to the market will continue well into the medium-term. Accordingly, we believe that those property businesses such as ourselves with equity able to invest in the near-term into the markets should be able to transact at favourable levels of return.

There are still clouds on the horizon, however. The austerity programme now being introduced in the UK will have an impact which is not easy to predict. Increased levels of taxation, both direct and indirect, together with significant reductions in Government expenditure are likely to reduce domestic consumption and encourage the restoration of savings levels as the consumer battles to survive the storm. Unsurprisingly, these current difficulties

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are also adversely affecting levels of business confidence and are likely to continue to do so until the way ahead has greater clarity. Rental growth in the occupational markets has reduced by some 15.1 per cent over the last three years and whilst that fall appears now to have levelled out, it will likely take many years before any significant rental growth reappears.

I am pleased to report that our IPD investment portfolio performance for 2010 equalled that of the IPD UK Quarterly Property Index for that year notwithstanding that our portfolio of real estate investments does not include any element of Central London weighting. Whilst it was clear that Central London was the sector with the strongest capital and rental growth during 2010, our more than acceptable comparative performance to the benchmark confirms our long-held contention that, in current market conditions, terms of trade in the secondary markets have moved towards those with appropriate expertise and capital. We expect this to continue. The valuation uplifts in our Balance Sheet of course take no account of improvements in the development and trading portfolios, which are reported only on ultimate sale. 2010 saw us continue with our strategy of focusing our investment portfolio on property assets that represent a mix of core defensive income and asset management initiatives. We have no present plans to change this approach. We do, however, have a considerable amount of equity remaining available in cash to invest into the marketplace as and when suitable opportunities arise and we remain alert to allocate this capital into a market which is likely to remain constrained of cash for some time.

Active development on a substantial scale is normally seen in the second half of an economic cycle when demand for retail and office accommodation is strengthening, vacancy rates are falling and capital availability is expanding. It is therefore unsurprising that we have not been recently engaged in any major development activity in the UK's largest cities although we continue to seek out sites that could represent profitable developments for future years. On the other hand, the rapid recovery in rental values in the City of London together with both a perception of reduced supply and the weight of inward investment have conspired to raise values of prime development sites to levels which would appear to be hard to justify in such an early stage of the current economic cycle. Whilst we continue to pursue opportunities in this particular market, we are apprehensive both with regard to the underlying strength of demand and also the quantum of supply that may be brought to the market in the medium-term. We suspect that the City of London will remain a market for those with deep pockets and a longer-term investment horizon.

Outlook

Monetary policy is hard to predict, perhaps even by those who pull the levers, but we do anticipate that interest rates will remain at minimal levels for some time yet to come. It is quite likely that both the Government and the Bank of England will seek to maintain interest rates at around current levels as and until stronger economic growth in the UK is initiated. To date, the two major domestic UK banking groups with significant government equity ownership have only gradually released troubled loans and foreclosed real estate into the market and it is arguable this has had minimal impact on pricing such has been the strength of investor demand for product. It would appear that these UK banking groups have now realised the value from the larger, better located and better let properties and that the next few years will see them work harder to maintain the same level of capital release from smaller loans. It perhaps follows that the next tranche of loans to be realised by the banks will be within the secondary rather than the prime sector. The availability of capital to acquire these assets will be reduced since investors with an appetite for prime property are unlikely to have the same risk profile on assets which are noticeably inferior in terms of location, tenant covenant strength and lease maturity profile.

Conclusion

To say that we have clarity in all aspects of the marketplace would be wrong. However, we do have clarity with regard to the opportunity and returns that will be available to us as we apply our cash and expertise into those stressed areas of the market that lack adequate capital. If significant large-scale development projects need to await the next phase of the economic cycle, so be it. We will maintain the risk profile of our business model within the constraints in which we have operated for many years.

On behalf of the Board, I would again like to record my welcome to Sarah Bates, our new Board member, who brings with her an outstanding record of experience and skills, some of which we have now seen close at hand during the past year.

It remains for me to thank all of our Directors, management and staff for their valued contributions. Their professionalism and standing in the marketplace has undoubtedly been the key to our success through the last few years and will represent the base on which we will move forward with growing success.

David Jenkins
Chairman
1st March 2011

A business model proven sustainable in unprecedented market severity

Our strategy, followed consistently for over 15 years by the management team, allows for the cyclical nature of the property industry, thus mitigating the effects of major market fluctuations.

The following are the key elements which, applied rigorously, enabled the Company to emerge in a better position than many of its competitors from the recent severe market conditions.

01

Low risk financial and funding structure

Development Securities differs from most property companies, having a conservative use of debt. It seldom owns the major projects it is actively developing, although it may, on some schemes, have a modest financial involvement. The Company typically derives project management fees through the development process and a participation in the eventual gain arising to the investors when the project is completed.

We have never believed it is appropriate for a company of our size to accept sole development risk in relation to the complex and substantial development projects in which we are involved. We endeavour to share the majority of development project risk with financial institutions and partners who are the more appropriate long-term investors.

Our funding partners have included:

- Standard Life Investments
- The Prudential Assurance Company
- Legal & General Assurance Society
- Universities Superannuation Scheme Limited
- Aviva Investors
- DEKA Immobilien Investment GmbH
- Commerz Grundbesitz Investmentgesellschaft
- Deutsche Grundbesitz Investmentgesellschaft
- Corpus Sireo Immobilienfonds

02

Large-scale development projects

In our experience, large and complex development projects offer greater profit potential than smaller ones, without necessarily increasing the inherent risk profile.

Our strong track record, including such successful multi-phase developments as PaddingtonCentral, also gives us a competitive advantage when seeking these large-scale projects.

03

Focus with balance and diversity

In order to provide a sustainable business model through the vagaries of the property and business cycles, we aim to combine opportunities for short-term development gains with a pipeline of multi-phase projects. To ensure focus of effort and expertise we restrict our activities to the United Kingdom, remaining largely within the commercial property market.

Our balanced, diversified business model typically includes examples of:

- Single, prestige office developments
- Multi-phase office developments
- Regional urban regeneration projects
- Retail development projects
- Mixed-use developments
- Residential

04

Investment portfolio

We know that large developments, perhaps lasting through several property cycles, create uneven profits and cash flow.

The Company allocates a significant element of its equity to the ownership of a diverse investment portfolio, consisting of properties spread across the UK, covering retail, office and industrial sectors: this mix is driven by market conditions, availability, stock selection and potential for asset improvement.

The investment portfolio provides a steady and predictable flow of funds, contributing significantly towards central overheads.

05

Geographic focus

All of our development and investment activity is conducted within the United Kingdom.

Structured selection and management of risk

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Principal risks

Development Securities' business model is defined by the nature and extent of the risks which the Directors consider appropriate to its skills and size. Project specific risk and cumulative portfolio risk are key measures by which the Executive Directors appraise potential new transactions. The Group's risk profile is maintained under continual review by its Risk Committee, which meets quarterly, and by the Board.

The Directors consider the following to be the principal risks and uncertainties facing the business. They may be grouped as external risks, whose occurrence is beyond the control of the Group, and business risks, which the Directors choose to manage as part of the Group's operations.

External risks

Market risk

The real estate market is closely linked with the health of the wider economy, and susceptible to both national and global shocks. Recessionary conditions can undermine the demand for both new developments and existing investment property, and hence significantly reduce their value. Specifically there is a risk to real estate values in the potential for the banks to accelerate their deleveraging in the sector, perhaps forcing a large amount of property on to the market.

Current and prospective market conditions form a principal focus for both executive management and the Board, as described through the following pages.

Scarcity of opportunities

The Group's business is transactional, and requires a flow of opportunities, which can be sparse either because of lack of market demand for new product or through excess equity liquidity forcing uncompetitive market pricing.

The Group maintains a flexible approach to market opportunity, resisting the temptation to chase activity when prices move too high, and seeking sectors and locations where value can be generated, as described in the Operating Review on pages 10 to 31.

People risk

The Group's success depends on the ability and experience of its Directors and management. The departure of key individuals or the failure to attract and retain new talent can result in the loss of core competencies and industry knowledge and networks.

The Group aims to motivate and reward its team appropriately and competitively, as described in the Remuneration Report, and the Board keeps the strength and depth of the team under continual review.

Counterparty, funding, liquidity and interest rate risks

Counterparty and other financial risks are described in the Financial Review on pages 35 to 41.

Business risks

Planning risk

Procuring an appropriate and valuable planning consent is a key element of the creation of value through property development. Securing planning permission is a complex and uncertain process, with applications subject to objection from a wide range of potential stakeholders, and hence prone to delay, modification and rejection.

The Directors rely on their experience and local knowledge to maximise the chance of success and reduce the risks and costs of failure to a minimum.

Construction risk

Construction is subject to significant risks of cost overruns, delay and the failure of an appointed contractor.

The Group examines these risks in each case, conducting appropriate due diligence on the capabilities and financial security of its prospective contractors. The Group deploys its own experienced project managers to minimise the likelihood and impact of the above risks.

Five year summary

	2010	2009	2008	2007	2006
Revenue (£m)	**44.4**	35.1	171.1	60.4	48.7
Profit/(loss) before taxation (£m)	**2.6**	(11.4)	(65.6)	0.2	22.8
Net assets (£m)	**333.1**	244.0	161.0	228.9	231.4
Earnings/(loss) per share*	**1.7p**	(16.8)p	(134.6)p	0.0p	52.2p
Net assets per share	**272p**	297p	397p	564p	568p

* Restated following Placing and Rights Issue.

Julian Barwick
Executive Director

Michael Marx
Chief Executive

High calibre, professional and stable team

Graham Prothero
Finance Director

Matthew Weiner
Executive Director

Well positioned to unlock potential in the market

Michael Marx
Chief Executive

"Development Securities, with its track record of partnership with both institutions and private investors, together with its transparency as a regulated, publicly listed entity, is increasingly seen as a desired partner for those in need of capital.

With the two recent, successful share offerings in July 2009 and July 2010 that have together raised £200 million, we are approaching the appropriate scale for a significant property business from which a number of advantages will flow.

Clearly, the Company has greater resources with which to approach a marketplace presently somewhat starved of capital, but not so much resource that we are compelled to seek larger, prime sector deals at what may be inflated prices – our preference remaining to operate in the space above the level associated with private capital, but below that normally associated with the large REIT operations. Secondly, we will be more operationally efficient since we intend to deploy the new equity without the need to add significantly to our overhead structure and as a result, the operational cash flow will be more even and move closer to being self-sustaining. Additionally, once we have completed the deployment of the fresh £200 million of capital raised, we will have doubled the value of property assets under our control, thus reducing the impact on our finances of those legacy assets from the previous cycle which are perhaps not best suited for this stage of the current economic cycle.

There continues a sense that the UK remains at the crossroads without any strong sense of clarity as to which direction the economy will eventually take. Probably in the main due to the swift application of the policy of quantitative easing, a complete economic collapse was avoided but there are undoubtedly pitfalls ahead wherever one looks. Unsurprisingly, after the traumatic experience of recent years, both business and consumer confidence is in relatively short supply and, as is often the case, it will need to be rebuilt slowly and carefully. It is of little comfort that the UK is not alone in these difficulties, especially since our major trading partner, the European Union, has its own problems on a perhaps more extensive scale.

This current uncertainty prescribes the behaviour of the consumer and consequently also of industry and business. Household savings ratios have now restored themselves to the reasonable level of five per cent as is the customary reaction following a period of financial stress. Given the challenges faced in the coming few years through increased direct and indirect taxation, as well as the likely rise in unemployment induced by government-led cut backs, the savings ratios may plateau rather than increase as these savings reserves are utilised to overcome the next few difficult years. It remains to be seen whether and how rapidly the private sector can take on the challenge of energising the spare capacity that now exists in the UK economy – for therein lies the solution.

Rental growth has now levelled out after a decline of several years and given current vacancy rates that exist within most sectors, is unlikely to increase at a significant rate until the medium-term. Prospective IPD Index performance will therefore depend more on interest rate levels and yields if further capital growth is to be achieved. We do not view this as likely for some time, but we need to remind ourselves that real estate is a long-term, cyclical business rather than a short-term sprint.

In such circumstances, it is reassuring to see that on an historic comparative yield basis, property still looks fairly priced in comparison both to the bond and equity markets. It would seem that the generous yield spread is justified by the uncertainty that lies ahead.

Apart from the level of interest rates, which are to some extent within the control of the UK monetary authorities, the two big UK banking groups are in control of a substantial overhang of real estate that represents the legacy of past lending to the real estate sector. In addition, there are, of course, the even more acute problems associated with the Irish banking system. To date, the banks generally have been cautious with regard to both the speed and quantum of the real estate they have released back to the market and have focused primarily on those prime assets which have found ready investors from within the substantial amount of money that is seeking to enter the market. Increasingly, having now harvested what might be termed the low hanging fruit, the UK banking groups may find it more challenging to dispose of those assets of a more secondary nature. But since their exposure to real estate loans is still at levels above those when the 1990 crash began, deal with these assets they must. Effectively, circa £100 billion needs to be found over the medium-term to reduce the banks' inappropriate loan exposures to the real estate sector. Some of this amount will likely come from further loan loss provisions once the banks have internally replenished their capital through enhanced earnings, and some from redemption or refinancing. It is only once the banking sector has returned to health that the property business, amongst others, will have a chance to fire on all cylinders again.

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The support of our shareholders in the last two years for fresh equity of £200 million has placed us in a strong position for the next few years. The large scale cash-rich real estate investors have traditionally and quite rightly been reluctant to invest outside the prime sector due to considerations of both risk and lot size. Development Securities represents one of the relatively few portals through which such much needed equity can flow in order to access the returns from this fertile area of the market, since we not only have the cash and the expertise necessary to deal with complex real estate issues, but have always remained diligently focused on commercial property in the UK. As such, our brand in the market has strengthened in those various areas of the sector where capital starvation is acute.

Development Securities, with its track record of partnership with both institutions and private investors, together with its transparency as a regulated, publicly listed entity, is increasingly seen as a desired partner for those in need of capital. Under such circumstances, we are tending to find that terms of trade are moving more in our favour.

It would seem that, for Development Securities, the next few years will be spent for the most part unlocking problem assets with pregnant value or carrying forward modest-sized development schemes which are unable to find sufficient available capital.

It is unsurprising that major development schemes in the next few years are likely to be restricted to Central London where special considerations have seemingly always applied. History would caution us that this market is the most volatile of all sectors in the UK, due to its heavy focus on the financial services sector and with an increasing representation by overseas investors who may often also be significantly represented in the occupational markets in Central London. It would appear that the likely reason why real rents have declined so significantly in the Square Mile since the early 1980s is that supply has continued on average to consistently outpace demand. Since the advent of Canary Wharf, this supply has also appeared outside the walls of the City of London but has nevertheless drawn off a considerable amount of demand, thus weakening rental growth within the core district. We do not believe that a new generation of very tall buildings in the Square Mile will alleviate this factor – rather, perhaps, compound it. Nevertheless, since there still appears to be value to be captured in the increasing agglomeration of skills in London, we continue to pursue Central London development schemes and search out those opportunities where creativity and added value justify risk and price. We are confident that we will eventually secure appropriate opportunities, but we proceed with caution.

Whilst property is not manifesting indications of a fresh price bubble, there is little doubt that quantitative easing encouraged the recent sharp upward re-pricing of the market as investors struggled to find assets that they could regard as generating significant steady cash flow and which offered the potential, at least, of an inflation hedge. The assets that we have been able to acquire over the last 18 months or so have come forward to the market by virtue of some degree of financial stress. Apart from the obvious instances of where we have been able to acquire property previously foreclosed by the banks because of loan defaults, there would appear to be increasing pressure from the banks onto their customers to resolve loans that are not fully performing and accelerate property disposals in order to avoid the need for loan foreclosure. Additionally, the absence of significant fresh capital to the property sector outside of the prime Central London market, has brought forward a number of situations where both fresh capital and expertise is required to unlock development potential. Finally, mainly in the area of strategic land improvement, there is a significant shortage of capital available to individuals who have expertise and are willing to partner with us in exchange for appropriate funding. Strategic land opportunities in which we have taken interest relate mainly to prospective residential land. Otherwise, our preferred asset class for development propositions emerging from the market still tends to be neighbourhood shopping centres anchored either by a major food store or by an equally strong major retail trading covenant. These schemes enable us to create value where demand is evident and also provide a defensive component due to the strength of the anchor itself.

More recently, we are evolving an increasing appetite in well established urban areas for mixed-use development projects that can embrace a not insignificant residential component. Of course, opportunistic transactions will always be of interest at the appropriate value.

Our current role, outside of possible large-scale commercial development in Central London, is focused on the transformation of assets, which presently languish for one reason or another within the secondary sector of the market, into higher quality real estate that will appeal to the ultimate cash investor. If interest rates remain low and inflation remains subdued, the cash investor will deploy his funds into these newly created or refreshed assets with or without a capital contribution from the banking sector. If inflation does begin to manifest itself, the cash investor will largely believe that his real estate portfolio will act in the medium- to longer-term as a partial inflation hedge.

Within the above strategic and tactical observations we will continue to run our business in accord with the same risk-averse policies which fashioned our track record over the last 15 years or so. Those strategies proved effective against the worst excesses of volatility that the UK market has ever seen and we believe will continue to do so.

Michael Marx
Chief Executive
1st March 2011

Adjusting our focus in response to the market to drive performance

Matthew Weiner
Executive Director

Julian Barwick
Executive Director

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The world in general, and the UK commercial property market in particular, seem non-committal as to the future direction of their markets.

They may also simply be exhausted. It is nearly three and a half years since the banking crisis began, and there is still no apparent let up. A return to the comforts of the old normality looks as far away as ever. As is apparent from the still gathering fiscal storm in the peripheral nations of the Eurozone, policy is still struggling to get on top of the liquidity and solvency issues that lie at the heart of the crisis.

Financial markets theoretically discount the future into today's prices. However, they have been, to date, strangely schizophrenic. Anyone who bet on inflation and economic recovery, buying gold, equities or inflation-linked bonds, made good money in 2010. Likewise, bets on deflation, namely nominal government bonds, have also paid off. This apparent conflict reflects the uncertainty felt by market participants as to whether the continued global economic recovery, which the equity markets are discounting, is built largely on government stimulus.

Against this backdrop, it is somewhat surprising, given the degree of current inflation and currency depreciation in recent years, that ten-year gilt yields are still under 4.0 per cent. This reflects both the impact of quantitative easing and a belief that the UK deficit will be brought under control in the medium-term and inflationary trends can be suppressed.

However, there is a degree of risk that the present low bond yields may be coming to an end in response to improving economic trends and rising inflation. Lenders are starting to seek higher returns on their funds, and if longer-term rates climb this could have implications for property yields.

Property values continued to rise during 2010 against the market's predictions, as investors sought to deploy cash earning a minimal return. However, much of this growth was front-loaded and the second six months of the year saw most values track sideways.

We believe that markets will continue to undulate in response to the latest economic news. Economic stimulus from governments and resilient demand from Asia should allow a continued slow and patchy recovery. It is imperative that we recognise the swings in sentiment and adjust tactics if appropriate.

This recovery should translate into commercial property values overall being flat in 2011, with prime values up a little and secondary easing, making asset management the key to differentiation in performance. Slow economic recovery is not conducive to a swift return to rental growth, and this remains the case with rental values in all sectors apart from Central London. We believe it will be 2012, at the earliest, before the wider market will witness positive growth trends. In addition, shortening lease lengths and the slow unpicking of risk will impact on assets with short-term lease events.

The need to drive business performance by intensive asset management has prompted us to move our focus further up the 'risk curve' and deploy our full range of value add skills. Taking advantage of the lack of liquidity in the secondary market, and the resulting favourable pricing of assets, we have secured a number of projects where we are planning extensive refurbishment or redevelopment, in order to create institutional-grade investment stock.

At this point in the property cycle, major development requirements are naturally few. Those that have arisen have been almost exclusively in Central London. We have reviewed several opportunities, and submitted bids on some, but we have been outbid by others with perhaps a more bullish view of medium-term occupier demand.

2011 Atlantic Village

A keen eye for opportunity

The potential of Hammersmith Grove
London

The 1.5 acre Hammersmith Grove property has lain fallow since it was used as a marshalling yard for the construction of the Hammersmith and City Line. Sites of this size adjacent to a London Underground station are a rare opportunity, particularly in West London, between the West End and Heathrow. Lyric Square has improved immeasurably as a public space, and we look forward to the prospect of extending this public realm.

Accommodation:
275,000 sq. ft. net

Office space on a 1.5 acre site

Key information:
Phase 1:
105,000 sq. ft.
Office building to commence mid 2011

Phase 2:
170,000 sq. ft.
Office building, timing to be determined

Funding:
to be determined

End value
Circa
£140
m

The potential of Hale Barns
Manchester

Constructed in the 1960s, the existing shopping centre has long failed to deliver the quality of retail provision required by the local community in this affluent suburb of Manchester. We acquired the property in March 2010. The planned redevelopment is anchored by Booths, which will attract further high quality retailers to the scheme.

Accommodation:
60,000 sq. ft.

Key information:
30,000 sq. ft.
food store pre let
to Booths.

12,000 sq. ft.
retail space

24 residential units

Planning:
Submitted
January 2010

Funding:
To be determined

End value
Circa
£22
m

The potential of Stanground
Peterborough

HDD is developing a convenience retail centre as part of a new community at Stanground, South Peterborough. During 2010 we obtained planning consent for a 45,000 sq. ft. food store on part of the site, and this land has now been sold to Morrisons, who are proposing to develop an eco store, with a high standard of environmental performance. HDD will bring forward plans for adjacent retail units during 2011.

Accommodation:
6.1 acres of land

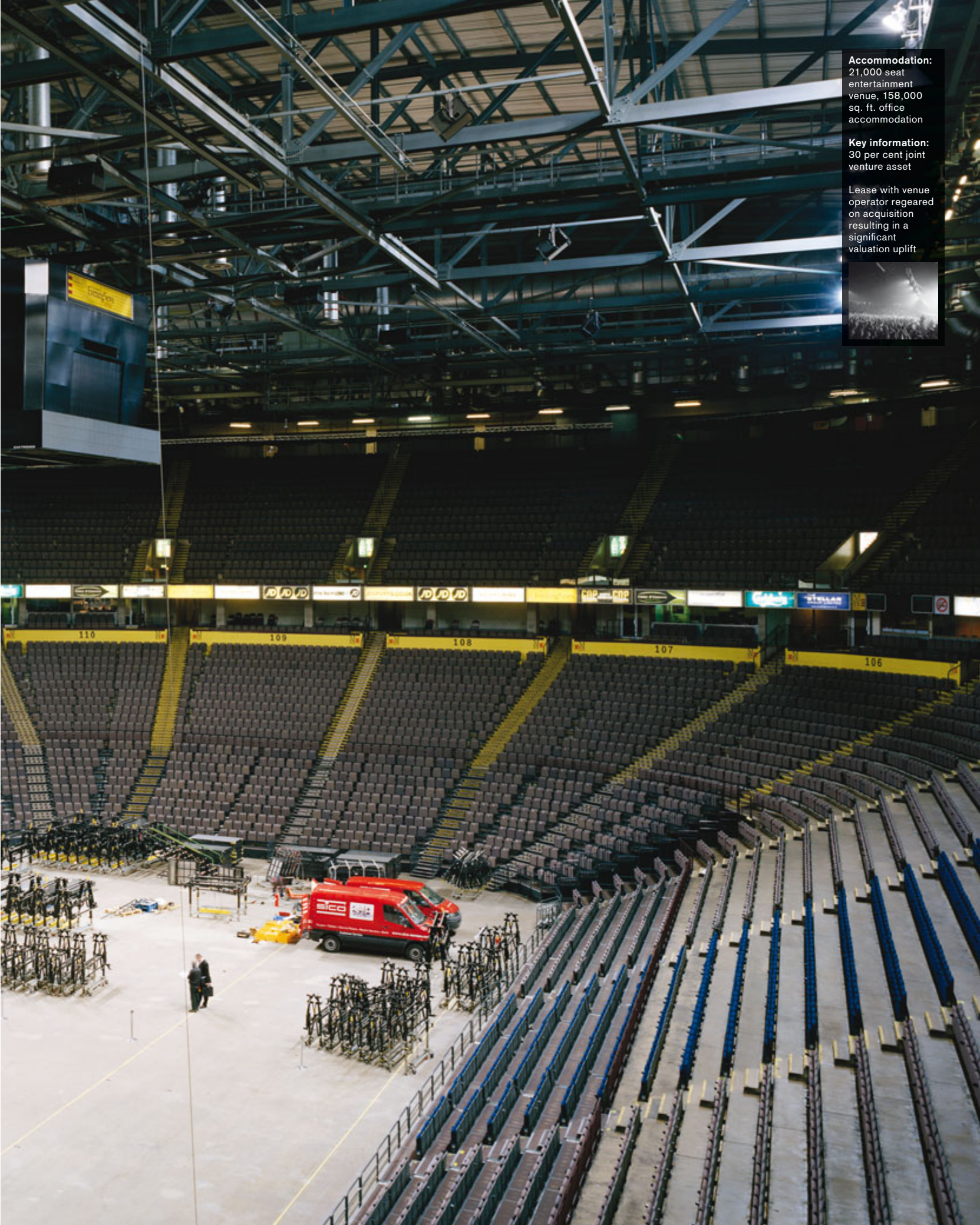
Key information:
4.7 acre land sale, with planning for 45,000 sq. ft. food store completed February 2011

Planning achieved for a public house, children s day nursery and retail parade on the remainder of the site.

Funding:
Corporate funding

The potential of Manchester Arena Complex
Manchester

The Manchester Arena Complex, the largest indoor venue in Europe, was acquired in June 2010. The Arena offers key asset management opportunities to the Group and its joint venture partner, Patron Capital Partners.



Accommodation: 21,000 seat entertainment venue, 158,000 sq. ft. office accommodation

Key information: 30 per cent joint venture asset

Lease with venue operator regeared on acquisition resulting in a significant valuation uplift

The potential of Atlantic Village
Bideford

In 2008 we identified significant opportunities to enhance and expand this 102,000 sq. ft. factory outlet centre in North Devon, capitalising on the footfall from an adjacent new ASDA and introducing several high street brands. The case study on page 30 sets out our asset improvement plans in more detail.

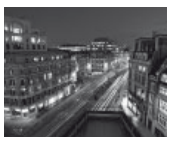
Accommodation:
102,000 sq. ft. retail floor space, 850 car parking spaces

Key Tenants:
Marks and Spencer PLC, GAP, Nike

Planning:
Application submitted for an 84,000 sq. ft. extension

Major development portfolio

Hammersmith Grove
London



01
St Bride Street
London, EC4

02
Four Kingdom Street
PaddingtonCentral, London

03
Five Kingdom Street
PaddingtonCentral, London

04
Heart of Slough
Slough

05
Premier Inn
Southampton

Major development portfolio

In a cyclically quiet period for major development, we have been active in pursuing our existing projects at PaddingtonCentral and West Quay, Southampton, and bringing forward our prospective new scheme in Hammersmith.

At Two Kingdom Street, PaddingtonCentral, we completed the 274,000 sq. ft. net prime office accommodation flagship of this project where we are in partnership with Aviva Investors and Irish-based Avestus. Whilst 75,000 sq. ft. was rapidly let in the spring to Astra Zeneca, interest in the remaining 199,000 sq. ft. has been subdued. At St Bride Street, London EC4 01, forward-funded by Corpus Sireo and completed in 2010, after a quiet year, 2011 has started well, and we currently have 12,000 sq. ft. office accommodation under offer.

Looking into the future we are now bringing forward, with a view to start in 2011, the detailed design of two office buildings at PaddingtonCentral (Four and Five Kingdom Street 02 03). At Hammersmith Grove we hope for a determination of our planning application in March 2011, four months after we completed the purchase of the property. The Hammersmith site accommodates 275,000 sq. ft. net of prime offices in two buildings with the first phase comprising 105,000 sq. ft. net. We intend to build this speculatively on a forward-funded basis.

At Slough, the council will complete its handsome new bus interchange in mid-2011, allowing us to demolish the existing station, so clearing the way for the first phase of this 350,000 sq. ft. office development. Speculative development here is unlikely to be viable in 2011, so we shall be marketing for pre-lets 04.

Outside the South East, speculative development of commercial offices will be a rare phenomenon in current markets. Accordingly, our strategy at Cambourne, Cambridge; Curzon Street, Birmingham and Axis Tower, Manchester is to minimise expenditure and wait. All these locations are established, with strong commercial markets and, with very low levels of new product across the board, a return of confidence across the wider economy will induce a recovery of rental growth prospects, the key pre-condition for funding of speculative development. We see Manchester recovering first. It should not be forgotten that Curzon Street is in any event currently in something of a siding, having been identified as the site of Birmingham's new high-speed rail station. Whilst, for the moment, we are hamstrung by this proposal, the possible location of Birmingham's HS2 station on this site will of course significantly enhance the location.

Our hotel development at West Quay, Southampton, pre-let to Premier Inn 05 and forward-sold to AMEC Pension Fund, is on target to complete in mid-2011.

Turning to new business, we remain active bidders for sites and opportunities in most London locations. On good sites in prime locations, bidding is very competitive, with London exhibiting its enduring attraction as a store of value to the international investor. This often drives down returns to the point when they are too low to attract our capital, which can be invested elsewhere in the UK to deliver the appropriate return for our shareholders.

Other development and trading activity

Hale Barns
Manchester

06

Sandbanks
Dorset

07

Colindale
London NW9

Other development and trading activity

The market is currently characterised by a dearth of new funding from the banks, the traditional providers of liquidity to the development marketplace. Having access to capital, we have considered a range of opportunities arising for this reason, and selected a number of acquisitions offering strong returns.

These projects are across a range of sectors and regions, with the common features mostly being their requirement for equity and for significant and often complex added value components. These projects are generally controlled by the Group, sometimes in partnership with others, working with specialists to access sectors or regions which are new to us.

Retail developments

In March 2010, we acquired a shopping precinct and car park in Hale Barns, an affluent suburb of Manchester. We have submitted a planning application for a comprehensive redevelopment comprising a 30,000 sq. ft. food store which has been pre-leased to Booths, 12,000 sq. ft. of further retail accommodation and 24 residential units. We expect to obtain planning permission shortly and, subject to resolving the final vacant possession issues, will be commencing development later this year. It is likely that the scheme will be developed in conjunction with an institutional development partner.

At the Wick Site in Littlehampton, we were sufficiently encouraged by the site's planning potential to take a surrender of the occupational leases for a reverse premium of £4.9 million. We now have a seven-acre development site held in our books at an industrial land valuation which should offer significant upside if a retail-led planning consent can be secured.

Residential developments

We believe that selected residential markets offer interesting demand/supply dynamics and we have reviewed a number, along with specialist partners.

At Westminster Palace Gardens, London SW1, which we acquired in June 2010, we have secured planning consent for the change of use of 22 office suites to residential use and have obtained vacant possession of the majority of these units. We are now preparing the tender for the conversion works. The continued strength of the Central London residential market is encouraging and we hope to exceed our original forecast returns from this development.

Since the year-end we have completed the £5.0 million acquisition of a single dwelling house on the Sandbanks peninsula, Dorset 06, which has planning permission for demolition and redevelopment as four luxury apartments. Development works will commence immediately and we are hopeful of securing early sales. Interestingly, of the 60 deals undertaken on the peninsula in 2010, only eight required mortgage finance. Our ability to transact with cash allowed us to secure the opportunity at an attractive entry price, since local and regional developers lacked access to capital.

Mixed-use developments

We continue to believe that the suburban London market will offer interesting mixed-use development opportunities as the demand for residential accommodation in London continues to be firm. This activity continues to build upon the principles of density of development and mix of uses that we secured earlier at our Colindale, London NW9 development 07.

To date, we have secured two new opportunities in this sector. In May, we entered into a joint venture with Orion Land & Leisure Limited to fund the planning and land

08

Airport House
Croydon

09

Braehead
Glasgow

acquisition costs to facilitate a 300,000 sq. ft. mixed-use residential and retail development in Shepherds Bush, West London. Since entering into the joint funding arrangement we have been selected as preferred developer by the London Borough of Hammersmith and Fulham and entered into option agreements with the key landowners. A planning strategy brief for the area has also been adopted and we are now preparing to submit a planning application in the second quarter of 2011. An assessment of our development options will be made once planning consent has been obtained.

In September we entered into a joint funding arrangement with Cathedral Group to promote a 2.5 acre site in Greenwich, South East London, for a 300,000 sq. ft. mixed-use development. Simultaneously, we entered into a contract, conditional on planning, for the site purchase and have recently submitted a planning application for our proposals which we are hopeful of seeing consented in the second quarter of 2011. We are already in discussions with end users for the hotel, affordable housing and student accommodation with a view to securing early commitments conditional upon planning. The strategy in respect of the private residential accommodation will be determined later.

We are in early stage negotiations on two further, similar projects in East London which are food store led mixed-use schemes incorporating a residential element. Both schemes are situated near major transport interchanges.

Since the year-end we have acquired for £4.3 million an industrial and office complex in a residential area of Watford, Hertfordshire. Currently yielding circa 8.5 per cent, we intend to secure residential planning consent on the majority of the site, retaining part of the site for employment uses. This granular activity has limited downside risk, yielding an attractive income return but with potential development upside. Again, our ability to transact for cash was important in securing the property.

Other sectors

We are also reviewing other specialist sectors in partnership with sector experts and during the course of 2010 signed framework agreements with two specialist care home developers. The UK's demographics are supportive of increasing demand for care homes and we believe that the sector will in time mature into a mainstream investment class offering long-term indexed leases. We intend only to pursue opportunities which are either pre-let or pre-sold, choosing operators cautiously in a sector not unknown for its significant financing issues. We have recently commenced an 80-bed care home in Dartmouth which is pre-sold to an end user. We hope to secure further opportunities in this sector in 2011.

Bank portfolios

We have continued to work with several banks to resolve third party situations requiring both capital and expertise.

During 2010 we completed transactions with three different banks. In July, we acquired Airport House 08 in Croydon for £7.8 million from LPA Receivers acting on behalf of Bank of Ireland, with the bank providing stapled finance. This local landmark building is a well-located serviced office which was underperforming because the previous owner lacked the capital required to maintain the quality of accommodation. We have commenced a programme of refurbishment works and have already seen improving income and occupancy levels.

In September, we acquired a vacant 103-key hotel in the Braehead area of Glasgow 09 from LPA Receivers acting on behalf of Allied Irish Bank for £3.9 million. The price represented a capital value per key of £40,000, which was less than its replacement cost. We have granted a 25-year management contract to the Campanile Group, part of the Starwood Hotel Group. The hotel reopened in November and early indications are promising.

In November we acquired 14 assets (the 'Rock portfolio') for £23.2 million from LPA Receivers acting on behalf of Lloyds Banking Group. Several of the properties have asset management potential, requiring the Group's combination of expertise and capital. We have a two- to three-year business plan for the portfolio, and have already implemented significant initiatives which should result in some early disposals. We believe that the realisation of the portfolio will make a significant contribution to the Group's profits. The portfolio has an average lot size of circa £1.6 million. An ability to deal with detail and complexity will be an important theme in 2011 as the banks are reluctant to take a significant discount for uncertainty and Development Securities' willingness and ability to undertake this analysis as part of the bidding process represents an advantage over competitors in the marketplace.

These three transactions confirm that the Group is increasingly accepted by the banks as a reliable partner in the deleveraging of their balance sheets; the Rock transaction illustrates our capability in increasingly larger deal sizes.

We continue to pursue such opportunities. We believe that the terms of the International Monetary Fund (IMF) 'bailout' of the Irish banking sector will require those banks, in conjunction with the National Asset Management Agency (NAMA), to accelerate their debt reduction activity. We have invested time in 2010 in building relationships with key market participants and these efforts should provide the foundation for a subsequent deal flow.

Henry Davidson Developments (HDD)

Stanground
Peterborough

10

Lawley
Telford

11

Llanelli
Carmarthenshire

12

Bannerbrook
Coventry

HDD

Continuing strength of demand for floor space from food retailers has rewarded our decision to acquire the whole of the Henry Davidson Development (HDD) business early in 2010.

HDD had been a strategic partner of the Group since 2007, specialising in the development of local shopping centres, in particular within new residential schemes, and we acquired the whole of the business in March 2010. We consider that HDD has significant growth potential as it focuses on food store anchored development, an area where occupier demand remains high; however, the business needed a firmer capital base in order to capture this growth and secure its pipeline of opportunities. The full integration of the business has been implemented and HDD has achieved a number of notable successes in the year.

At Stanground in Peterborough, planning permission was secured for a 45,000 sq. ft. food store led development. The land consented for food store use was sold to Morrisons, producing a profit of £0.5 million.

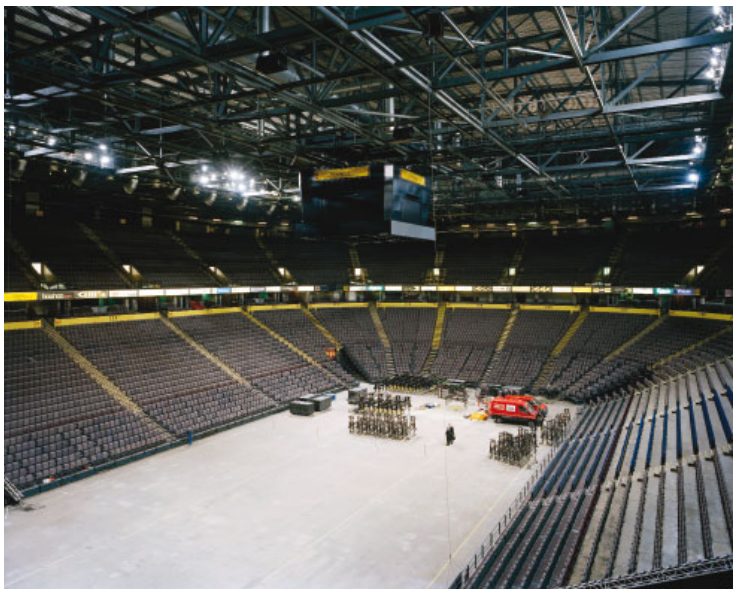
At Lawley, Telford 10, planning consent was achieved for a mixed-use scheme anchored by a 35,000 sq. ft. food store, which has been pre-let to Morrisons, and further retail, residential and ancillary uses. Funding discussions with institutional partners are now under way ahead of a start on site in 2011.

Planning permission has also been received for a circa 50,000 sq. ft. leisure scheme in Llanelli 11, Carmarthenshire, including a 53-key hotel and offices. HDD has secured pre-lets on 50 per cent of the accommodation and the scheme will commence on site in April 2011, with a target completion date of autumn 2012, by which time further lettings should have been secured.

At Bannerbrook 12 in Coventry, HDD completed a 10,800 sq. ft. retail parade, with seven of the eight units let in advance of practical completion. The asset will be marketed for institutional sale in the Spring.

HDD continues to secure new opportunities and three new projects have been added in 2010.

Strategic partnerships



Manchester Arena Complex
Manchester

13
Neston
Lancashire

14
Hattersley
Greater Manchester

15
Pincents Hill
Tilehurst, Berkshire

Strategic partnerships

We leverage our equity and expertise by working with selected partners whose strengths and skills are complementary with our own.

Manchester Arena Complex

The Manchester Arena Complex was the Group's most significant acquisition in 2010. The purchase was concluded in June, and the joint venture formally completed in August. The Arena is the largest indoor venue in Europe and attracts over one million visitors per annum. Immediately following acquisition, we re-geared the lease on the Arena to the incumbent operator allowing us to make an immediate revaluation gain of £9.5 million, of which the Group's share was £2.8 million. We are pursuing further asset management initiatives identified in conjunction with our partners, Patron Capital Partners. We regard this transaction as the beginning of an investment management activity, adopting similar principles to our development business and leveraging off our long-term performance track record.

CTP

CTP, our associate company based in Manchester, has successfully completed several developments and continues to review a number of potential new schemes.

In November practical completion was reached on a 35,000 sq. ft. food store in Neston, Lancashire [13], pre-sold to Sainsbury's. In October CTP also achieved practical completion of a mixed-use scheme in Kensington, Liverpool where the majority of the accommodation had been let or sold by practical completion.

Planning permission has been achieved for a 100,000 sq. ft. food store in Hattersley, Greater Manchester [14]. Terms are under discussion for forward-funding, and CTP expects to commence work on site in the first half of 2011.

CTP has identified three new projects with similar characteristics to those acquired by the Group, where the ability to introduce both equity and expertise will be rewarded with higher than normal risk-adjusted returns.

Beyond Green

Beyond Green Developments (formerly Blue Living) specialises in sustainable development with a focus on urban extensions. We are working with them to bring forward selected large developments designed and planned on sustainable principles. During the year the team has continued to pursue a planning appeal for a major scheme in Tilehurst, near Reading in Berkshire [15]. In addition, they have secured a promotion agreement for a 3,500 residential unit scheme in Norwich, in respect of which it is intended to submit a planning application during 2011.

Wessex Investors

Wessex Investors are our local partners in the West Country, working with us to implement individual asset improvement plans, and to bring forward new opportunities.

In Plymouth we have acquired an existing hotel on a site with potential for retail-led redevelopment. The hotel will be operated under a management contract to produce income whilst the planning strategy is progressed. This type of complicated development proposition is not untypical of those we are seeing, offering significant upside with limited downside risk.

Barwood

Since entering our strategic land promotion venture with Barwood Group, we have been pleased with progress on each of the secured projects, although the recent major revisions to the planning system have prompted a review of our approach in each case. The venture has obtained planning consents on two smaller sites which will now be sold in the open market to capitalise on the shortage of supply to the market of smaller parcels of land.

Investment portfolio

Atlantic Village
Bideford

16
The Furlong Shopping Centre
Ringwood

17
Crown Glass Centre
Nailsea

18
Swanley Shopping Centre
London

Investment portfolio

Throughout 2010, we remained committed to our strategy of focusing on assets with a mix of core defensive income and asset enhancement initiatives to drive value in the medium-term.

As at 31st December 2010 the portfolio comprised 37 assets with a fair value of £199.2 million, increased from 33 assets at £181.0 million a year earlier. We retain our strong discipline in evaluating each opportunity both in respect of our existing portfolio and new assets, since income return will come under increasing pressure in this stage of the current economic cycle.

The revaluation of the direct investment portfolio at December 2010 showed a capital gain of £8.8 million or 4.6 per cent. We were pleased to achieve a 15.2 per cent IPD Total Portfolio Return in 2010, equal to the IPD UK Quarterly Property Index return. The IPD Index return benefited from a strong contribution from Central London, excluding which the Index would have shown 10.1 per cent. Our portfolio does not include Central London exposure, indicating an outperformance in regional and secondary markets of 50 per cent.

This builds on our record over several years, which saw us secure in April a prestigious IPD award for the highest three-year annualised return within the specialist funds sector.

The average initial yield in 2010 was 6.12 per cent compared with 6.82 per cent in 2009.

Acquisitions during the year added £4.9 million to the rent roll, which was reduced by £1.9 million through the sales of Grimsby and Warrington. New lettings within the portfolio during the year totalled 101,067 sq. ft. and rent of £1.3 million. Voids within the completed portfolio rose slightly from 7.5 per cent to 8.0 per cent, principally owing to the acquisition of Pearl Assurance House, Nottingham, with a business plan of rolling refurbishment within the office accommodation. Overall, contracted annual rent rose to £12.5 million from £11.6 million as at the previous year end.

At Atlantic Village, Bideford it has been another active and successful year. Key lettings have been secured to Gap and Nike which serve to strengthen further the scheme's attractiveness with footfall at the scheme up 20 per cent year-on-year as a direct consequence. With the anchor tenants now in place, we are working on the remainder of the Centre to improve the line up. We also feel that the scheme is now sufficiently strong to progress the proposed extension, and we have recently submitted a planning application for a further 84,000 sq. ft. of retail accommodation on existing land to provide a second anchor area to the scheme. It is expected that planning will be obtained later this year and that circa 50 per cent of the space will be pre-let before a start on site is made.

During 2010 we acquired a 40 per cent interest in land known as Atlantic Park, located directly across the road from Atlantic Village. This 20-acre site has recently been allocated in the Local Plan for a mixed-use development and we are working up a planning application for submission in 2012.

At The Furlong Shopping Centre, Ringwood [16], we have had a successful year in capturing, through rent reviews, the rental reversion generated through our earlier letting campaign. We continue to improve the tenant mix at the Centre and to work on our Phase II proposals, where the land acquisition strategy is nearing completion and a revised planning application should be made in 2011.

At Kingsland Shopping Centre, Thatcham, several smaller lettings have served to improve trading. We are also giving active consideration to a 10,000 sq. ft. extension to the Centre. This additional floor space will enhance the retail critical mass, which is the next stage in the value creation process.

At Crown Glass Shopping Centre, Nailsea [17], we were much encouraged by Waitrose taking over the former Somerfield unit adjacent to our holding. We have seen elsewhere just how powerful the impact of this can be on

adjoining retail units and this is starting to occur at Nailsea as existing tenants such as HSBC have sought to upsize their space and WH Smith are under offer on a unit. We plan to continue this process in 2011 whilst working on our development plans for further retail accommodation on the land we acquired adjacent to the Centre.

At Swanley Shopping Centre, Swanley 18, the opening of the Wilkinson unit has provided a much needed anchor for the scheme and we are already seeing both new occupiers enter the scheme and existing tenants renew their leases. In 2011, we need to build on this momentum whilst developing, in conjunction with the Local Authority, our ideas for an expansion of the scheme in the medium-term.

At The Broadway, Bexleyheath, we secured an expansion of the Primark unit, simultaneously re-gearing the lease to a new 25-year term. This activity added ten per cent to the asset value and underscores how important a proactive asset management strategy can be in a low-growth environment.

At the same time, we need to consider the overall return potential of the portfolio and dispose of those assets where performance has peaked or whose performance may be better driven by an alternative strategy outside our core skill base. These were the reasons behind the disposals of the House of Fraser store in Grimsby (where we considered that performance had peaked) and The Genesis Centre, Warrington (where more intensive local management was needed in these recessionary times).

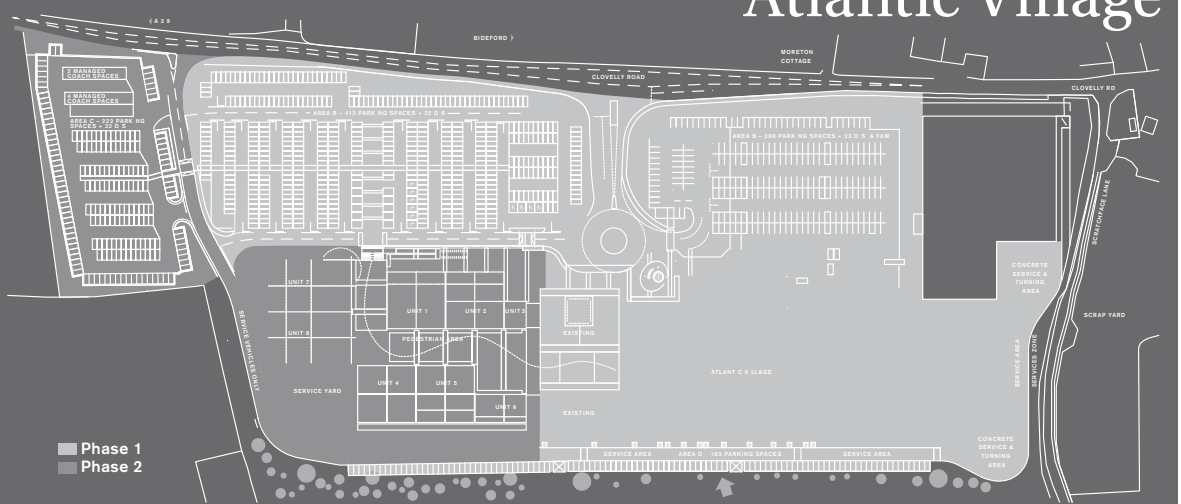
The sales achieved a profit over their fair value as at 31st December 2009 of £0.3 million. The Grimsby property had been acquired only in July 2009, and achieved a selling price of £13.2 million against its acquisition cost of £10.5 million 14 months earlier.

Inevitably these disposals remove valuable income, and we are pleased to report that the Grimsby income has now been replaced by the acquisition of three assets in Burnley, Port Talbot and Carmarthen totalling £11.8 million, yielding 8.9 per cent and with a weighted unexpired lease term of 8.9 years. These assets, whilst primarily acquired for their income, also have a degree of value-added potential. We continue to seek similar assets to replace the Warrington rent roll.

Investment case study

Atlantic Village

The new 8,000 sq. ft. store for Nike Outlet will open for trading in March 2011.



This 102,000 sq. ft. factory outlet centre in North Devon was acquired in 2008 with the benefit of the immediate opening of an adjoining 50,000 sq. ft. ASDA (not in ownership) which generated more regular footfall to the centre. With a business plan of securing high street brand anchor tenants into larger units, we signed up M&S (non food) who traded from a bespoke 10,500 sq. ft. store in 2009, followed by GAP Outlet in 2010. Terms have now been agreed with Nike Outlet and we expect them to begin trading in March 2011. We believe that we have now reached the critical mass of quality anchors needed to attract a higher calibre of tenants to the mall as has been evidenced by recent lettings to Costa Coffee, Denby and Hallmark and a number of lease renewals on favourable terms. Footfall and turnover have also increased by 20 per cent since the M&S opening/acquisition.

A planning application was submitted in late 2010 for an extension of approximately 84,000 sq. ft. and 200 new car parking spaces. The new construction will occupy non income producing land (currently in use as an adventure playground). The extension will offer a unique product in North Devon of uncovered 'big box retail targeting national fashion and homeware brands. The quality and quantity of additional retail offer should effect a step change of the centre s position in the Devon retail hierarchy and create a 'wash over effect improving the rental levels and tenant demand for the existing mall.

Investment property key statistics

Investment Property – key statistics

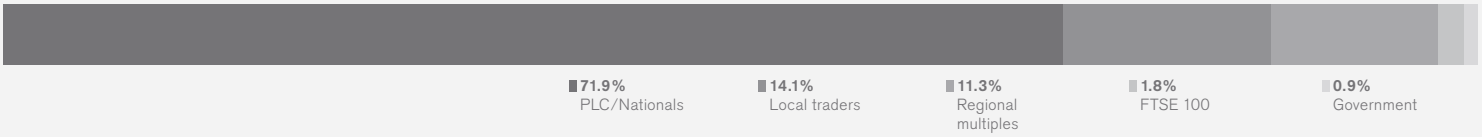
	Portfolio value £m	Contracted rent £m	Number of assets held at 31st December No.	New lettings in year £m/sq. ft.	Initial yield in year %	Equivalent yield %	Voids (excluding developable land) %	Rate of rental collections within 30 days %
2010	**199.24**	**12.54**	**37**	**£1.29m/101,067 sq. ft.**	**6.12**	**7.32**	**7.97**	**92.33**
2009	181.04	11.56	33	£1.26m/98,975 sq. ft.	6.82	8.07	7.54	91.88

Income generating properties – Like-for-like rental income received **2010**

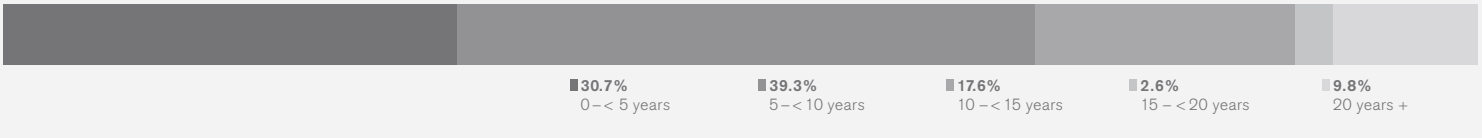
	Property owned throughout the year £'000	Acquisitions £'000	Disposals £'000	Transfers £'000	Total net rental income £'000
Investment	**7,240**	**4,259**	**1,252**	**—**	**12,751**
Development and trading	**1,312**	**1,127**	**—**	**—**	**2,439**
Joint ventures	**—**	**925**	**—**	**—**	**925**
	8,552	**6,311**	**1,252**	**—**	**16,115**
					2009
Investment	7,296	738	1,508	406	9,948
Development and trading	433	—	—	(406)	27
Joint ventures	—	—	—	—	—
	7,729	738	1,508	—	9,975

Completed Investment Portfolio – 31st December 2010

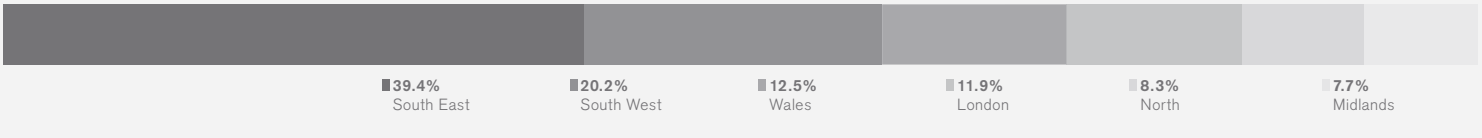
Gross rental income – Tenant profile



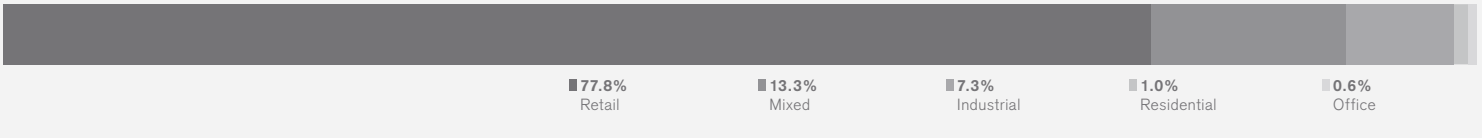
Gross rental income – Lease term profile



Capital value – Location profile



Capital value – Sector analysis



ww7.investorrelations.co.uk/devsec/ar10/corporate-responsibility

Our approach to corporate responsibility (CR) is fully integrated within our business strategy.

The Executive Directors have set objectives, which have been consistent for many years, in each of the five key areas of corporate and social responsibility that are material to our business: Corporate, Environment, Employees and Suppliers, Community and Investors. Targets for performance in each area are set annually.

A formal report is made to the Projects Board on every live development project each month. These reports are required to refer to health and safety matters and all other material issues affecting the Company's CR objectives.

Each year, this information is consolidated and recorded by an Executive Director; the progress made is assessed and targets are proposed for the following year. The Executive Directors as a whole will then discuss performance to date and agree new targets.

Integrated approach

When planning and bidding for development and investment opportunities, the briefing material we give to our consultants outlines our CR policies and detailed aspirations. Through early consideration in the design process, safety, sustainability and environmental considerations become embedded in all our projects.

As our joint venture business develops, it is our intention to share our knowledge and ambitions with our partners.

Corporate

Objectives

- Develop our minimum standards and advance from regulatory compliance towards good practice in sustainable and responsible development.
- Improve our internal reporting on corporate responsibility (CR) matters against our targets and objectives. To ensure sustained improvement and commitment to our objectives.

Targets for 2010

- Establish biannual performance reporting to the Board and publish this information on our website, www.developmentsecurities.com.

2010 Progress

- Reporting was improved through the Projects Board.
- The nature of reporting (by exception) and the limitations of our website prevented us from publishing this information on our website.
- Our key objectives are clarified within our briefing documents to external consultants. Our surveyors remain individually responsible for implementing policy. This has continued with the planning applications for Paddington-Central, Hammersmith Grove and Hale Barns.
- Our surveyors tailor project strategy for project management, sustainable development, waste management and BREEAM to suit the specifics of the development and to accord with our objectives.

Targets for 2011

- Improve our reporting structure further – surveyors shall report on CR matters to the Projects Board on all live development schemes by incorporating a written statement within their specific project reports.
- Update and review our corporate website to include current objectives and policy.
- Review our health and safety policies, including our internal handbook and HSE briefing documents for external consultants.
- Review our project briefing document and standard consultant appointments to reflect current CR Policy.
- Develop a 'briefing document' for our JV partners and Investment team.
- Allocate a CR Co-ordinator internally to monitor our CR activities and review our targets annually.

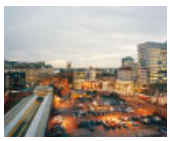
Environment

Objectives

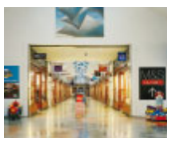
- Minimise energy and water consumption at all major developments, through good design, efficient construction site practices and advice to occupants.
- Seek to minimise waste on developments.
- On every project appoint suitably qualified consultants to advise on technical options available for sustainable development.

Targets for 2010

- Implement BREEAM assessments for all office developments; plan to achieve an 'Excellent' rating; achieve a minimum rating of 'Very Good'.
- To formally brief design teams on the importance of: energy efficient design; selection and specification of materials to minimise their environmental impact; use of pre-fabrication; production of a travel plan.
- To formally brief construction teams on the importance



Hammersmith Grove
Designed to achieve a 'very good' BREEAM rating and produce lower carbon emissions than the Building Regulations 2010 targets.



Atlantic village
During 2010 the Green Travel initiatives and subsidised bus link have been improved.

of: minimising energy use and CO_2 emissions; minimising transport use and CO_2 emissions; minimising water use in construction; reduction, reuse and recycling of waste materials.

2010 Progress

- A planning approval for the next phase of Paddington-Central is based on a design that seeks to achieve an Excellent BREEAM rating.
- Our planning application for Hammersmith Grove is designed to achieve an 'Excellent' BREEAM rating.
- Our planning application for Hale Barns is predominantly retail led with residential above. The retail shell units seek a BREEAM 'Very Good' target and the residential units will target a Code 4 Sustainable Homes accreditation.
- The Premier Inn Hotel at West Quay, Southampton will achieve a 'Very Good' rating and may yet achieve an 'Excellent' rating with the assistance of the operator. The site is on contaminated, reclaimed land in the centre of the city. We have had an active waste management policy on site for the duration of the project and have recycled the concrete and reinforcements from the old structures that were grubbed up on site. A travel plan and employment strategy for the tenant will be drafted following consultation with the local authority.

Targets for 2011

- Benchmark and reduce carbon emissions from all future developments, in advance of legislation, by working with our design and contracting teams on specifications and site management techniques.
- Publish a written case study of one of our major developments highlighting the issues of socially responsible development.

Employees and Suppliers

Objectives

- Maintain collegiate atmosphere; encourage and facilitate employee development.
- Enforce policy to ensure the workplace health and safety of all employees and visitors.
- Liaise with construction teams to ensure compliance with health and safety best practice procedures.
- Engage our major suppliers in our sustainable development programme and maintain relations through periods of inactivity.

Targets for 2010

- Ensure the rigorous and consistent treatment of health and safety issues by improving on-site reporting and engagement with employees.
- Operate a formal Board reporting process for workplace and site-based health and safety issues.
- Ensure every major supplier understands our sustainability objectives and targets and achieves satisfactory performance.

2010 Progress

- We have actively supported employees in their continuous personal and professional development including training courses, technical seminars, lectures and conferences.
- We have held team building events for our site developments and encourage participation in risk and opportunity sessions with all our team members.
- Our Health and Safety Officer reports on risks and maintains and distributes a health and safety handbook.
- We continually assess our external team's suitability to perform their Construction, Design and Management (CDM) duties.
- All project surveyors now report to the Projects Board on health and safety matters, highlighting any reportable accidents, our response, record-keeping and lessons learned.
- We conduct annual reviews with key suppliers to discuss their and our current business objectives, including corporate responsibility policies.
- We appointed a 'librarian' to collate and distribute to our surveyors technical information received from external sources.

Targets for 2011

- Extend health and safety reporting process to our joint venture partners and the main Board, through an obligation to report on any reportable accidents on our developments.
- Review our internal and external HSE documentation.
- Review our selection procedures for the appointment of the consultants that advise us on health, safety and environmental issues and CDM matters.
- Ensure that every major supplier understands our sustainability objectives and targets and achieves satisfactory performance; review our Standard Briefing Document in March 2011.
- Ensure that all new development projects have a 'brief' based around the Standard Brief Documentation.
- Continue to maintain relations with our suppliers during periods of inactivity through a structured approach to communications.
- Issue guidance notes to our JV partners and encourage them to adopt our objectives and targets.

Hale Barns
Sensitive use of previously developed land. Detailed attention to energy conservation through good and considerate design

Manchester Arena Complex
Committed to over a £1 million maintenance and renovation programme

Stanground
Consultation and community engagement helped shape the planning application to maximise pedestrian, cycle, and public transport links

Community

Objectives

- Create diverse and balanced developments that reflect the socio-economic diversity of their local communities.
- Develop successful partnerships with local stakeholders and engage them in our sustainability work.
- Enrich and improve communities and environments local to our developments.
- Sponsor and support projects that promote the arts in local communities.
- Sponsor and support youth programmes in their efforts to create greater opportunities for young people in local communities.
- Share knowledge with our local communities to improve levels of skills and training and to foster a greater appreciation of environmental issues.

Target for 2010

- Instigate a post-completion review programme with local stakeholders at all major new developments within a year of project completion, to obtain feedback.
- Identify and record key improvements at all major developments: open spaces, landscaping, community facilities and public art.
- Actively seek opportunities to support youth programmes and educational initiatives.

2010 Progress

- We continue to support local initiatives connected to our development sites. For example we helped to fund the refurbishment of a local school through our Two Kingdom Street project at PaddingtonCentral.
- We have provided both financial and intellectual assistance to a wide range of charities supporting health, education and welfare initiatives.
- We sponsored charitable activities by employees.
- We held post-completion reviews of the last phase of PaddingtonCentral and our CityPark, Manchester scheme.
- We support the programme at West Quay, Southampton for using local labour and providing educational experiences and presentations for local schools. We have also committed to draft an Employment and Skills Training Document for the occupier, Premier Inn.

Targets for 2011

- Continue post-completion review programme with local stakeholders at all major new developments to obtain feedback within a year of completion, including at our hotel development in WestQuay Southampton.
- Identify and record key improvements at all major developments including open spaces, landscaping, community facilities and public art.
- Actively seek opportunities to support youth programmes and educational initiatives on our major developments.

Investors

Objectives

- Contribute to the better working of our industry by participating in debate and publishing research.

Targets for 2010

- Aim to participate in a minimum of two sectoral debates or research programmes per year.
- Actively seek to part-sponsor one or two research projects and initiatives beneficial to our work each year.

2010 Progress

- We have supported a real estate education programme at Reading University and published our 'Quality of Life' report.
- We financially contribute to British Council for Officers, the British Property Federation, the New London Architecture, London First and Transport for London.

Targets for 2011

- Aim to participate in a minimum of two sectoral debates or research programmes per year.
- Actively seek to part-sponsor one or two research projects and initiatives beneficial to our work each year.

Risk awareness and corporate reputation

Objectives

- To identify and manage risk to reflect our corporate strategy.

2010 Progress

- See the section in this report entitled Risks on page 5.

Resilience and flexibility are key

Graham Prothero
Finance Director

"Since the equity raising in 2009, the Group has invested or committed equity of £109.6 million and deployed new debt of £133.8 million.

Our reputation and risk-averse capital structure has enabled us to raise both equity and debt in a market where liquidity is constrained.

Capital structure and liquidity management

The Group's strategy for its capital is to maintain a conservative balance of equity and debt appropriate to the profile of our asset portfolio, achieving both certainty and flexibility. This takes into consideration our wider operational strategy and our intentions for each asset, together with our expectations for the availability and cost of alternative sources of finance.

Having successfully survived the effects of the banking crisis in late 2008 and early 2009, and made all appropriate loan-to-value repayments from its own resources, the Group was well placed in July 2009 to raise £100.0 million of new equity (£94.0 million net of expenses), through a Firm Placing, Placing and Open Offer. In March of 2010 we raised new 15-year, fixed rate debt of £58.2 million from Aviva Commercial Finance Limited, secured against a portfolio of new and existing investment properties. In the Spring of 2010, having made excellent progress in deploying the new equity, the Directors identified that the Group was continuing to see a growing stream of opportunities for further investment, and that this would rapidly exceed its remaining equity resources. Consequently, in July 2010, having committed circa £69.0 million of the equity raised in the previous year, the Group again approached shareholders and raised a further £100.2 million of new equity (£93.7 million net of expenses) through a successful Placing and Rights Issue.

Since the equity raising in 2009, as at 31st December 2010 the Group had expended and committed equity of £93.8 million, and deployed net new debt of £133.8 million, increasing to £109.6 million and £133.8 million as at the date of this report.

Consequently, the Group's gearing (including share of joint ventures) as at 31st December 2010 was 27.7 per cent, compared with 23.9 per cent at the beginning of the year. During the year this ratio peaked at 54.2 per cent, immediately before the Placing and Rights Issue. If joint ventures are excluded, the figures for December 2010 and 2009 were 21.4 per cent and 18.7 per cent respectively.

The current relatively low level of gearing reflects the recent equity issue. We expect to see this level continue to increase as the funds are invested. In line with our risk-averse policy of maintaining a conservative level of gearing, as described on page 4, we target a level of between 50 and 60 per cent as an efficient operating level for the business.

Our cash and overall liquidity is managed at Group level, with our investment, development and trading portfolios assessed and monitored according to their own specific risks. Within our debt facilities we maintain a mix of fixed and variable rates, in general preferring the certainty of fixed rates for our larger and longer-term borrowings.

As described on page 5, the Group limits its risk in major development projects through the principle of forward sales. This is achieved in various ways, from the completed forward sale of the land and project assets, through to the contracted sale of the prospective development, with appropriate guarantees of completion. The Group's direct contribution to more modest development project finance is provided by way of equity and medium-term bank facilities which provide the necessary flexibility to draw down funds as required.

The Group's investment portfolio is financed by a blend of equity, the debenture loan and bank borrowings of an appropriate term for each asset or group of assets. Our investments in joint ventures and associates are funded from equity, with any relevant gearing deployed within the ventures themselves.

ww7.investorrelations.co.uk/devsec/ar10/financial-review

Responsibility for management of cash and liquidity risk rests with the Board. The executive team has systems in place for the monitoring and management of this key aspect of our business. Daily review is delegated to the Finance Director, who discusses this with the other members of the executive team at least on a weekly basis. The Board formally reviews the position at its meetings, which occur eight times per annum.

The principal tools of assessment are a 15-month cash flow forecast, which is updated in full on a quarterly basis and monthly for material changes, a schedule of agreed bank facilities and amounts drawn against them, a summary of net debt, including derivative instruments, a summary of current cash deposit balances and a formal commentary on the position prepared by the Finance Director for each Board meeting.

For the longer-term, the Directors review the Group's capital structure, taking account of the real estate cycle, any changes in the nature and liquidity of the Group's asset portfolio, the likely forthcoming risks and opportunities for the Group, and the market for equity and debt finance. This is formally revisited at least twice per annum, via the Group's Risk Committee, which reports to the Board, and at the Board's annual strategy review. In addition this is discussed informally as appropriate at each Board meeting.

Medium-term liquidity is arranged through a mix of the Group's equity and its debt facilities. The continuing net withdrawal of bank debt from the property sector means that lending is very cautious. However, the Group has strong relationships with its lenders, and has not been constrained in arranging new debt during 2010, completing new facilities totalling £137.0 million.

Reflecting the nature of the Group's business, short-term liquidity requirements are fairly predictable. Cash requirements are monitored on a monthly and weekly basis, and short-term cash balances are deposited accordingly.

Cash management

The Group's temporarily high levels of cash have prompted a reconsideration of our policy on treasury management. Cash may be invested across a wider range of instruments, including instant and term deposit accounts, money market funds and commercial paper. The policy prioritises security and liquidity ahead of returns, and the Board has set limits for both minimum credit ratings and maximum concentrations with respect to counterparties. As at the year-end the Group had £104.1 million of cash held across eight banks.

					Principal financial covenants			
Facility type	Total facility £'000	Utilised as at 31st Dec 2010 £'000	Interest rate	Maturity	Loan to value ratio	Interest cover ratio	Minimum net worth £'000	Notes 1
Loans financing longer-term assets								
Revolving credit	38,000	31,113	Variable	31-Jan-13	70%	105%	—	
Term loan	47,500	47,500	Hedged	16-Jun-13	65%	160%	—	4
Term loan	6,200	6,200	Variable	11-Jul-15	80%	—	—	
Term loan	57,565	57,565	Hedged	12-Mar-25	80%	110%	—	
Loan notes	32,844	32,844†	Hedged	25-Oct-27	—	—	100,000	2
Debenture	20,000	20,000	Fixed	06-Jan-16	66%	—	—	
Loans financing development and refurbishment assets								
Term loan	6,565	6,565	Hedged	25-Jun-12	65%	—	100,000	
Term loan	15,296	15,296	Hedged	28-Oct-13	65%	160%	—	
Term loan	15,610	15,610	Variable	06-May-15	65%	—	100,000	3,4
Revolving credit	3,455	—	Hedged	24 mths from draw	50%	—	100,000	
Term Loan	17,550	—	Variable	42 mths from draw	—	—	150,000	

1 Interest cover ratios are specific to the loan and the relevant property. Minimum net worth refers to the net asset value of the Group per its latest Balance Sheet (31st December and 30th June).
2 These unsecured, variable rate loan notes are denominated in Euros, with a nominal value of €47 million. The Group has entered into a cross-currency interest rate swap, such that interest rates are fixed and the Group will repay a fixed Sterling amount. The minimum net worth covenant applies to the hedge rather than the loan notes.
3 The loan to value ratio covenant is only testable after the third anniversary of the loan being refinanced (i.e. in April 2013).
4 Loans relating to Joint Ventures represent the total loan facility and not the Group share.
† Represents the amount of the Group's liability in Sterling taking account of the hedging instrument.

Current bank facilities and borrowings

The Group's bank facilities are set out in the table on the previous page. As at 31st December 2010 the value of the Group's gross borrowings was £175.5 million (2009: £126.2 million). Cash balances were £104.1 million (2009: £80.6 million), including amounts of £27.0 million held as restricted deposits, giving net debt of £71.4 million and gearing of 21.4 per cent (2009: £45.6 million and 18.7 per cent).

The Group's share of net debt in joint ventures was £20.8 million (2009: £12.8 million); if this is aggregated with the Group balances, net debt rises to £92.2 million and gearing to 27.7 per cent (2009: £58.4 million and 23.9 per cent).

During 2010 the Group repaid loans totalling £18.9 million and refinanced other borrowings totalling £24.1 million. We also cancelled certain facilities originally intended to finance the extension and redevelopment of certain investment assets, but which were deemed no longer appropriate for our asset management plans.

In addition to the new loan of £58.2 million, the Group has drawn debt against several asset acquisitions. In June the Group arranged a two-year facility of £10.0 million for the acquisition and development of Westminster Palace Gardens; in the same month we drew down a five-year facility of £6.2 million from Bank of Ireland, secured against Airport House, Croydon, as part of the agreement for the acquisition of the asset from the administrator acting for the bank. Similarly in October we drew stapled three-year debt of £15.3 million from Lloyds Banking Group, in connection with the acquisition of the Rock portfolio.

In March the Group and its partner each lent a further £5.0 million to the Curzon Park Limited joint venture, to enable the joint venture to make a part prepayment of its bank loan, reducing that borrowing to £15.6 million. In June the Group drew down £47.5 million for a term of three years in respect of the acquisition of the Manchester Arena Complex; in August this facility was transferred into the joint venture vehicle, in which the Group retains a 30 per cent stake.

Committed facilities as at 1st March 2011 total £176.8 million, with a weighted average term of 9.1 years (falling to 8.5 years including the Group's share of joint ventures). Unutilised facilities are £27.9 million.

In the Group's portfolio the earliest maturity date is June 2012, in respect of the Westminster Palace Gardens project, where the debt is expected to be repaid from project cash flows and the Group has no plans to refinance. The earliest maturity in respect of facilities financing longer-term assets is January 2013.

The bank loan to Curzon Park Limited matures in May 2015, and the Group is keeping this under review, whilst monitoring the prospects for the asset itself (see page 86). The borrowings in respect of the Manchester Arena Complex joint venture mature in 2013; the Directors currently anticipate that this will either be refinanced closer to that time, or repaid from an earlier sale of the asset.

The Directors keep bank covenants under review, and are content with the current position. We aim to agree our loan-to-value covenants at comfortably tolerable levels, leaving sensible headroom for foreseeable changes in the general market or the specific asset. We also incorporate cure mechanisms into the facility documentation, such that we have an appropriate opportunity to restore the required loan-to-value ratio by making cash deposits or prepayments.

Interest rate risk and hedging

As at 31st December 2010 the summary of the Group's interest rate exposure was as follows:

	Excluding share of joint ventures %	Including share of joint ventures %
Fixed rate	43.8	39.0
Floating rate, swapped into fixed	26.5	30.7
Floating rate with cap	8.6	7.7
Floating rate	21.1	22.6

The weighted average interest rate payable was 5.8 per cent (5.6 per cent including joint ventures).

As noted in the table in note 16(d), interest rate caps and swaps are used to provide protection against exposure to interest rate fluctuations. The Directors have maintained a mix of fixed and variable rates, in order to provide an appropriate measure of certainty within the portfolio.

Facilities with variable rates of interest, in particular longer-term facilities, expose the Group to the risk of interest rate fluctuation, whilst fixed rate instruments reduce flexibility and incur break costs in the event of early settlement. The Directors keep these risks under continual review, and regularly consider the possibility and likely cost of extending our interest rate hedging.

Interest rate swaps also carry counterparty risk, in respect of the potential failure of the bank on the other side of the transaction. The Group mitigates this risk by dealing only with major banks and monitors their continuing creditworthiness. There is no current indication that any of the Group's hedging counterparties may be unable to settle its obligations.

Interest rate swaps are marked to market in the Balance Sheet, giving rise to the risk of fair value

movements in the derivative instrument, and a consequent impact on net asset value. The Group also holds a cross-currency interest rate swap, which is designated as a cash flow hedge. Movements in the foreign currency leg of this swap provide a hedge against movements in the fair value of the €47 million loan notes. Movements in the interest leg are taken to reserves. The effects of these fair value adjustments in the year to 31st December 2010 are set out in the note Derivative financial instruments on page 40.

Other financial instrument risks

Development and trading portfolios

The principal financial instrument risks in these assets are the credit risk in counterparties. Given the nature of these assets the amounts owed to the Group can be significant, and these arrangements are monitored very closely both before contracts are exchanged and throughout the execution period.

The current phase in the cycle means that the Group has no major development debtors. The Group is contracted to provide £5.0 million of development funding for each phase at PaddingtonCentral, in respect of which it earns interest and a profit share, both subject to the profitability of the phase. The Group's development partners, who are contracted to pay this interest and profit share at the completion of each phase, and to repay the capital at the end of the development, are large financial institutions. This risk capital is held as a development participation within available-for-sale financial assets, and at the year-end was valued at £5.0 million (2009: £5.0 million), as described in note 16(a) to the Group financial statements. The Directors are satisfied that the combination of the Group's risk-averse approach to development funding, its cautious selection of development partners and its focused and active management of each project provide reasonable comfort over the risks of these financial exposures.

Investment portfolio

The principal financial instrument risk in the investment portfolio is the credit risk implicit in potential tenant failure. The Group maintains the portfolio under continuous review. The portfolio is managed by local agents, with active involvement by the Group's investment team. The Board receives at each of its meetings analyses of tenant profile (including the concentration of credit risk, both by sector and by entity), existing and anticipated voids, overdue rents, and future and outstanding rent reviews, as well as a formal commentary by the investment team. The current profile of the portfolio and comments on performance in 2010 are set out on pages 29 to 31.

Projects in partnership

As described in the Operating Review, the Group is conducting an increasing proportion of its business in partnership with others, where the Group brings both development expertise and funding. These interests are carried in a number of balance sheet categories, and are summarised in note 26 to the Group financial statements.

The financial instrument risks in respect of projects in partnership are the financial strength and integrity of the operating partner, the contractual risk in the partnership arrangements and the operating success of the venture. The Group manages these risks by securing appropriate rights in each case over the use of the Group's invested capital and by active participation in the joint strategic and operating control of the ventures. The Directors have increased the resources dedicated to this element of our internal control, and refined the required level of reporting to the Board in this regard.

Contingent liabilities

Contingent liabilities are described in note 23 to the Group financial statements. The Directors ensure that these risks are appropriately documented and monitored, and that the risk of actual liabilities arising is restricted so far as is possible.

Foreign currency risk

The Group's operations are conducted almost exclusively in the UK. The Group's principal exposure to foreign currency movements is in the €47 million Euro-denominated loan notes, which is fully hedged to provide an effective Sterling liability. The details of the Group's sensitivity to exchange rate movements are set out in note 16(c) to the Group financial statements.

Maximum credit risk exposure

The Directors consider that the maximum credit risk exposure in each class of financial asset is represented by the carrying value as at 31st December 2010.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 4 and 5, in the Chief Executive's Statement on pages 8 and 9 and in the Operating Review on page 11. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial instrument risks are described in the Financial Review on pages 35 to 41, which also cover the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its

financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. Note 16 to the Financial statements gives further information about the Group's financial instruments and hedging activities.

The Group has considerable financial resources. Rental income continues to be robust, with the risk of significant default assessed by the Directors as low. Our development and trading activities are well-diversified across regions and sectors. Our debt finance is secured for appropriate periods and we are comfortable with our covenant positions. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully, despite the continuing uncertain economic outlook.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Result for the year and net asset value

Profit before tax for the year was £2.6 million, an improvement from the prior year loss of £11.4 million. After an unrealised loss of £2.8 million in respect of an interest rate swap, and a small loss on operating property revaluation, Total comprehensive income for the year was a negative £0.7 million (2009: negative £9.0 million).

The investment portfolio produced a contribution of £9.5 million, together with net revaluations of £8.8 million in the direct portfolio and a further £3.4 million in the Manchester Arena Complex joint venture. Profits from development and trading were £5.5 million. Operating costs totalled £12.9 million and net finance costs (including swap revaluations) were £12.8 million.

Other movements in net assets were dividend payments of £3.9 million and the proceeds of the Placing and Rights Issue of £93.7 million, giving a net asset value as at 31st December 2010 of £333.1 million and 272 pence per share (2009: £244.0 million and 297 pence per share). The movement in net asset value is set out in the table below.

	31/12/09	30/06/10	11/08/10 Pro forma following equity raising*	31/12/10
Net assets (£ million)	244.0	238.5	330.2	333.1
Number of shares (million)	82.3	82.3	122.4	122.4
Pence per share	297	290	270	272

* Calculated by adding the net proceeds raised from the Placing and Rights Issue of £93.7 million less the final 2009 dividend of £2.0 million paid in July 2010 to the net asset value as at 30th June 2010.

Net rental income

Gross rental income from the investment portfolio grew by 28 per cent to £12.8 million (2009: £9.9 million), the increase arising from both new investment properties acquired (£1.4 million) and letting and rent review activity on the existing portfolio (£1.5 million). Direct costs reduced to £3.7 million from £4.6 million in 2009, with the net charge within this figure in respect of onerous lease provisions falling from £1.7 million in 2009 to £0.4 million in 2010. As a result net rental income improved to £9.2 million from £5.5 million in 2009.

Development and trading profits

Profits from development and trading activity recovered to £5.5 million, net of abortive costs, from a net breakeven in 2009, with contributions from several projects. The sale of Canon House, Wallington produced a profit of £1.1 million, and a further £1.0 million of profit arose from the premium in respect of the lease surrender at the Wick Site, Littlehampton. The hotel development at West Quay, Southampton generated a profit of £0.7 million (being accounted for as a construction contract under IAS 11), and HDD's sale at Stanground contributed £0.5 million (over and above its fair value on acquisition in March 2010). Rents from the development and trading property portfolio contributed £2.4 million, including £1.1 million from the Weeke Local Centre, Winchester.

Operating costs

Operating costs were £12.9 million, a slight increase from the 2009 figure of £12.8 million. Within these totals, staff costs increased in 2010 by £0.7 million to £7.5 million, principally reflecting the consolidation of HDD since the acquisition in March. The 2009 total included a non-recurring charge of £1.4 million for a capital contribution in respect of a sub-letting.

Net finance costs

Interest income during the year was £1.4 million, slightly above the prior year figure of £1.0 million on higher average cash balances, but continuing to reflect very low deposit rates. Interest payable increased to £10.9 million from £9.1 million in 2009, on higher average borrowings and a slightly higher proportion of fixed rate debt.

Interest payable included a charge of £0.8 million in respect of the revaluation of swap instruments on two loans. During the year both loans were repaid, incurring break costs of £2.9 million, of which £2.1 million had been provided as at 31st December 2009. A further charge of £2.8 million was taken to Other comprehensive income in respect of the cross-currency fixed rate swap relating

to the €47 million 2027 Unsecured Subordinated Loan Notes (see note Derivative financial instruments on page 40).

Interest capitalised against development projects was £nil in 2010, compared with a figure of £1.4 million in 2009.

Investment portfolio

The carrying value of investment property increased from £181.0 million in December 2009 to £199.2 million at December 2010.

Details of acquisitions, disposals and valuation movements are set out in note 10(c) to the financial statements, and further analyses of the management and performance of the portfolio are given in the Operating Review on pages 29 to 31.

Sales of investment properties during the year produced a small net gain of £0.3 million over their fair value as at 31st December 2009.

Inventory – development and trading properties

As described in the Operating Review on pages 10 to 31, following the equity raises in 2009 and 2010 the Group has acquired a number of sites with potential for redevelopment. Under accounting rules this work in progress is stated not at fair value, but at the lower of cost and net realisable value; hence any improvement in value is reported only on sale. Acquisitions of development and trading assets during 2010 were £89.7 million, with a further £3.2 million added to existing schemes. Included in this were the Rock portfolio at £24.6 million and Westminster Palace Gardens at £10.5 million, as well as HDD projects of a further £23.1 million, including £18.1 million of existing work in progress consolidated on acquisition. Net of disposals during the year, inventory increased by £79.1 million to £157.7 million.

Joint ventures

The increase in the carrying value of investments in joint ventures from £nil in 2009 to £9.7 million in 2010 reflects the Group's 30 per cent share of the Manchester Arena Complex joint venture (MAC), established in July 2010.

MAC reported profit for the six-month period since acquisition of £11.4 million. Key to this level of performance was the revaluation gain, achieved primarily through the regearing of the principal lease. The Group's share of profit after tax was £3.4 million.

The loss of £0.5 million in Curzon Park Limited mainly represented interest on the bank loan. The Group's share of net assets of the joint venture was written down to £nil in 2008. As at 31st December 2010, the Group has a debtor due from the joint venture of £5.0 million, held within Financial assets and has provided a guarantee for its share of the joint venture's bank loan of £15.6 million, as noted within contingent liabilities.

Financial assets

Financial assets are analysed in note 16 to the Group's financial statements.

Derivative financial instruments

The Group's Euro-denominated loan notes and the related cross-currency hedge are carried as separate instruments in the Balance Sheet. During 2010 Sterling strengthened slightly against the Euro, decreasing the effective Sterling liability of the loan by £1.4 million and reducing the fair value of the derivative asset by a similar figure. The softening of EURIBOR interest rates over the period caused a further reduction in the value of the swap, such that its total fair value reduced to £3.3 million, from £7.5 million at the previous year end.

Other financial assets

Other financial assets include the Group's participation in the third phase of PaddingtonCentral, which has been revalued by the Directors at £5.0 million (unchanged from the previous year), together with loans to a number of associate companies. During the year the Group advanced a further £2.4 million to CTP, taking the total investment in that company to £14.3 million. New loans were provided to the Cathedral Group (£1.4 million) and Barwood (£1.2 million). The loans to HDD of £9.9 million as at December 2009 are now eliminated on consolidation, following the acquisition of that group during the year.

The representation of the Group's projects in partnership under IFRS is complex, being a mixture of equity and loan instruments. An analysis of the Group's interests and the accounting treatment of each is set out in note 26 to the Group financial statements.

Cash and borrowings

Details of the Group's borrowings and cash management are set out in note 16(b) to the Group financial statements and in the Financial Review on pages 35 to 38.

Net debt and gearing		2010	2009
Gross debt	£m	**(175.5)**	(126.2)
Cash and cash equivalents	£m	**104.1**	80.6
Net debt	£m	**(71.4)**	(45.6)
Net assets	£m	**333.1**	244.0
Gearing*	%	**21.4**	18.7
Share of net debt in joint ventures	£m	**(20.8)**	(12.8)
Gearing including joint ventures	%	**27.7**	23.9
Adjusted gearing	%	**12.7**	6.3

* Refer to note 1(w).

The gross debt figure includes the €47 million 2027 Unsecured Subordinated Loan Note facility, stated in Sterling at the current fair value of £40.3 million (2009: £41.7 million), and ignoring the hedging instrument. If these loan notes are removed from borrowings, gearing falls to 12.7 per cent. This is calculated by deducting from net debt the current fair value of £40.3 million (2009: £41.7 million) and adding back relevant restricted cash balances of £10.1 million (2009: £10.3 million) and transaction costs of £1.1 million (2009: £1.1 million).

Taxation

The tax charge for the year was £1.0 million, principally representing an increase in the Group's deferred tax liability of £0.8 million. The Group has significant potential deferred tax asset balances, but the Directors have restricted recognition to the amount of corresponding deferred tax liabilities, as uncertain market conditions do not offer sufficient probability of profits in the foreseeable future within the terms of IAS 12. The charge in the period principally reflects the deferred tax in respect of revaluation gains. There is a corresponding credit of £0.8 million in Other comprehensive income, representing additional recognition of the deferred tax asset. Tax movements and balances are set out in notes 7 and 17 to the Group financial statements.

Dividends

The Board will recommend to shareholders at the Annual General Meeting on 27th May 2011 a final dividend of 2.4 pence per share (2009: 2.4 pence per share) to be paid on 6th July 2011 to shareholders on the register on 3rd June 2011. This final dividend, amounting to £2.9 million, has not been included as a liability at 31st December 2010, in accordance with IFRS. The total dividend for the year will be 4.8 pence per share (2009: 4.8 pence per share).

Earnings/(loss) per share

The basic and diluted earnings per share for the year to 31st December 2010 was 1.7 pence (2009: loss of 16.8 pence on both bases, both restated following the 2010 Placing and Rights Issue).

After removing the unrealised revaluation of the investment portfolio and the mark-to-market adjustment of interest rate swaps, the EPRA adjusted loss per share was 11.8 pence per share (2009: 20.3 pence per share), as set out in note 9 to the Group financial statements.

Performance measures

Key performance indicators are set out below:

Year ended 31st December		2010	2009
Net asset value movement	%	**36.5**	51.5
Gearing	%	**21.4**	18.7
Investment property portfolio return as reported under IPD†	%	**15.2**	9.5
Total shareholder return	%	**(32.8)**	27.6

† Quarterly return reported for 2010 as the annual return is not published until mid-March 2011.

Ensuring stable management and governance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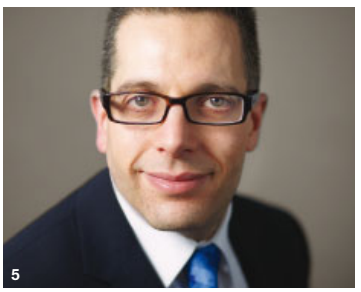
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1 David Jenkins
Non-executive Chairman
(Aged 66)

Joined the Board in February 2007 and appointed Chairman on 15th May 2007. A Fellow of the Institute of Chartered Accountants in England and Wales. Previously a partner in Deloitte LLP, London, and was Managing Partner of their Real Estate Practice until his retirement in May 2004. Senior Independent Director of MITIE Group PLC and Non-executive Director of Renewable Energy Systems Holdings Limited. He is also advisor to several companies and is a Governor of Downe House School.

2 Michael Marx
Chief Executive
(Aged 63)

Appointed to the Board in September 1994. A Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the UK Listing Authority Advisory Committee 2004 to 2007. Non-executive Chairman of Nationwide Accident Repair Services PLC.

3 Graham Prothero
Finance Director
(Aged 49)

Appointed in November 2008. A member of the Institute of Chartered Accountants in England and Wales. From 2001 until 2008 a partner with Ernst & Young LLP. Previously Finance Director of Blue Circle Properties and Finance Director of Taylor Woodrow's UK housebuilding.

4 Julian Barwick
Executive Director
(Aged 57)

A Fellow of the Royal Institution of Chartered Surveyors. Joined the Board in May 1998. Formerly property advisor to the Bedford Estate from 1997 to 2003, Chairman of the Paddington Regeneration Partnership from 2000 to 2002 and Board Member of the British Council for Offices from 1996 to 2006. Appointed to the Board of London & Continental Railways Limited in 2005.

5 Matthew Weiner
Executive Director
(Aged 40)

Appointed in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities PLC in November 2000 as Director of Investments. Trustee of the Manor House Trust.

6 Victoria Mitchell
Non-executive Director
(Aged 60)

Appointed in August 2002. Currently Consultant Director to Savills PLC, Non-executive Deputy Chairman of The Berkeley Group Holdings PLC and Non-executive Director of The Golding Group (South Africa) and Lennox LLP. Formerly an Executive Director of Savills PLC from 1988 to 2000.

7 Michael Soames
Non-executive Director
(Aged 60)

Appointed in August 2002. Previously Surveyor to The Mercers' Company, Group Corporate Development Director of Regus PLC and partner of Knight Frank LLP. Currently a Non-executive Director of the ISIS Property Trust Limited. A Fellow of the Royal Institution of Chartered Surveyors and past President of the British Council for Offices.

8 Sarah Bates
Non-executive Director
(Aged 52)

Appointed in January 2010. Currently a Non-executive Director of St James's Place plc, and of three listed investment companies, an advisor to several pension and charitable funds and is Chairman of the Stena Line (UK) Pension Scheme and the Association of Investment Companies. Former CEO of Invesco Asset Management's UK institutional business until 2003.

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Principal activities
The principal activity of the Company is that of a holding company. The principal activities of the Group during the year were property development, investment and trading.

Incorporation
Development Securities PLC is incorporated in Great Britain and registered in England and Wales, registration number 1528784.

Business review and future developments
A review of the Group's operations, the current state of the business and future prospects, including financial and non-financial key performance indicators, principal risks and uncertainties, is contained in the Chairman's Statement, Chief Executive's Statement, Operating Review and Financial Review, and should be read in conjunction with this report. The principal risks of the Group are set out on page 5. The information which comprises the business review as required by Section 417(1) of the Companies Act 2006 may be found in the Operating Review on pages 10 to 31 and in the Corporate Responsibility Report on pages 32 to 34.

Results and dividends
The profit for the financial year attributable to shareholders amounted to £1,678,000 (2009: £10,694,000 loss). An interim Ordinary dividend of £1,974,000 representing 2.4 pence per Ordinary share was paid on 9th September 2010 (2009: £974,000 representing 2.4 pence per Ordinary share) in respect of those shares in issue prior to the Placing and Rights Issue. The Board recommends a final Ordinary dividend of 2.4 pence per Ordinary share amounting to £2,936,000 payable on 6th July 2011 to shareholders on the register at 3rd June 2011 (2009: £1,974,000 representing 2.4 pence per Ordinary share). Subject to shareholder approval this makes a total dividend payment of 4.8 pence per Ordinary share for 2010, maintained from the previous year.

Group structure
Details of the Group's principal subsidiary undertakings are disclosed on page 84.

Share capital
In July and August 2010, following the receipt of valid responses, the Company issued 40,096,030 Ordinary shares of 50 pence each in connection with a Placing and Rights Issue raising gross proceeds of £100,240,000. Of the 40,096,030 Ordinary shares, 4,110,000 were issued on 28th July 2010 in connection with the Placing and the remaining 35,986,030 were issued in connection with the Rights Issue on 11th August 2010. The Company's issued share capital of 122,352,504 Ordinary shares of 50 pence each as at 31st December 2010 represents a single class of shares, with all shares ranking equally and fully paid. Details of the share capital are set out on pages 93 and 94.

The rights and obligations attaching to the shares are specified in the Company's Articles of Association, or alternatively may be governed by statute. There are no restrictions on the transfer of shares in the Company other than those specified by law or regulation. There are no restrictions on voting rights other than as specified by the Articles of Association.

Three resolutions relating to share capital will be proposed as Special Business at the forthcoming Annual General Meeting. The full text of the resolutions can be found in the enclosed Notice of Annual General Meeting.

Special Resolution 14. The current authority for the Company to purchase its own shares expires at the end of the forthcoming Annual General Meeting. A special resolution is to be proposed at the Annual General Meeting to authorise the repurchase of up to 12,235,250 Ordinary shares, representing approximately 10.0 per cent of the Company's issued share capital. The Directors have no present intention of making any market purchases of the Company's shares, but if they believed such action would enhance net assets or earnings per share, they would consider exercising their authority. As at the date of this report, the Company has an unexpired authority to repurchase 12,256,000 Ordinary shares.

Ordinary Resolution 15. The Directors will be seeking the renewal of the power to allot shares or grant rights to subscribe for, or to convert any security into shares. The authority sought will be in two separate tranches. The authority in the first tranche will allow the Directors to allot new shares and other 'relevant securities' up to a nominal value of £20,392,084 which is equivalent to one-third of the total issued Ordinary share capital of the Company. The authority in the second tranche will allow the Directors to allot new shares and other relevant securities only in connection with a rights issue up to a further nominal value of £20,392,084, which is again equivalent to one-third of the total issued Ordinary share capital of the Company. This is in line with corporate governance guidelines. The Directors have no present intention of exercising this authority. However, the Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise.

Special Resolution 16. If the Directors wish to allot new shares and other relevant securities, or sell treasury shares for cash (other than in connection with an employee share scheme), company law requires that these shares are offered first to members in proportion to their existing holdings. The Directors seek authority to renew the disapplication of shareholders' pre-emptive rights under Section 561 of the Companies Act 2006. The purpose of paragraph (i) of Resolution 16 is to authorise the Directors to allot new shares pursuant to the authority given by paragraph (i) of Resolution 15 for cash either (a) in connection with a pre-emptive offer or rights issue or (b) otherwise up to a nominal value of £3,058,812 (being equivalent to 5.0 per cent of the total issued Ordinary share capital of the Company), in each case without the shares first being offered to existing members in proportion to their existing holdings.

The purpose of paragraph (ii) of Resolution 16 is to authorise the Directors to allot new shares pursuant to the authority given by paragraph (ii) of Resolution 15 for cash in connection with a rights issue without the shares first being offered to existing members in proportion to their existing holdings. This is in line with corporate governance guidelines. The Board considers the authority sought to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 7.5 per cent of the total issued Ordinary share capital of the Company within a rolling three-year period without prior consultation with members.

Change of control

The Company has entered into significant agreements with its commercial partners, which contain change of control clauses and which may give rise to termination or renegotiation in that event. If enforced, the Company may be deprived of potential future earning capacity from such schemes. The Company is party to a number of committed bank facilities which upon a change of control are terminable at the bank's discretion. In addition, under such circumstances the Company's share option schemes would normally vest or become exercisable subject to the satisfaction of the performance conditions.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 48 to 51 of the financial statements. The Corporate Governance Report forms part of this Report and is incorporated into it by cross-reference.

Share option schemes

Options over 120,000 shares were granted to senior management under the Executive Share Option Scheme 2005. Further details of the share option schemes are contained on page 93 and in the Remuneration Report on pages 52 to 59.

Directors

The Directors serving during the year and up to the date of signing the Group financial statements were as follows:
D S Jenkins
M H Marx
G Prothero
C J Barwick
M S Weiner
V M Mitchell
M S Soames
S C Bates (Appointed 15th January 2010)

P V S Manduca resigned 7th May 2010

Brief biographical details are shown on page 43.

All Directors will be retiring at the next Annual General Meeting and, being eligible, will offer themselves for re-election. C J Barwick is required to offer himself for re-election in accordance with the Articles of Association and Combined Code. The other Directors are voluntarily offering themselves for re-election as a matter of best practice following the Placing and Rights Issue. Following the performance evaluation of the Board, all Directors were judged to have made a significant contribution to the Board's deliberations, reflecting their commitment to the role.

The Articles of Association deal with the appointment and replacement of Directors.

Under the Companies Act 2006 a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. No conflicts of this sort have arisen during the year under review.

Directors' service contracts and interests in the Company's shares

The unexpired period of Directors' service contracts and the interests in the shares of the Company of the Directors who were in office as at 31st December 2010 are disclosed in the Remuneration Report on pages 52 to 59.

Other than as disclosed in the Remuneration Report, none of the Directors had any material interest in any contract that was significant in relation to the Group's business at any time during the period, other than a service contract.

Directors' and officers' liability insurance

Article 155 of the Company's Articles of Association provides, among other things, that, insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Directors' duties, power or office. The Company maintains Directors' and officers' liability insurance, which is reviewed annually, and is considered to be adequately insured.

The third party indemnity insurance was in force during the financial year and also at the date of approval of the financial statements.

Articles of Association

The Articles of Association may be amended by a special resolution of the shareholders.

Annual General Meeting

The Annual General Meeting will be held on 27th May 2011 at 12.00 noon on the 14th Floor Portland House, Bressenden Place, London SW1E 5DS.

At the meeting, resolutions will be proposed to receive the Annual Report and financial statements, approve the Remuneration Report, re-elect Directors, declare a final dividend, re-appoint PricewaterhouseCoopers LLP as auditors and authorise the Directors to determine their remuneration. In addition, shareholders will be asked to renew the authority for the Company to make market purchases of its own shares, the general authority of the Directors to issue shares, the authority to dis-apply pre-emption rights, the renewal of the yearly authority to call a general meeting other than an Annual General Meeting on 14 days' notice and also to amend the Articles of Association, primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 and the implementation of the last parts of the Companies Act 2006.

Full details of all the resolutions can be found in the enclosed Notice of Annual General Meeting, which is also displayed on the Company's website at www.developmentsecurities.com

Financial risk management

Disclosures in respect of financial risk management objectives and exposures are set out in note 16(c) on pages 89 to 91.

Charitable donations

Charitable donations during the year were £112,124 (2009: £52,482). The Group supported a number of charities serving the community in which the Group operates. This included national and local charitable organisations and covered a wide range of causes including education, public services, community support schemes and events organised on behalf of major charities.

Other substantial interests

At the date of this report, the Directors have been notified of the interests in 3.0 per cent or more of the Company's issued share capital shown in the table below. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5.

	Shares	%
BlackRock Inc	19,619,910	16.04
Prudential PLC Group of Companies	7,243,709	5.92
F&C Asset Management plc	7,145,046	5.84
Aberdeen Asset Management PLC	5,722,600	4.68
Legal & General Group plc	4,808,521	3.93
BNP Paribas Investment Partners S.A.	4,807,935	3.93

Employees

The Group is committed to the principle of equal opportunity in employment. Current and potential employees are offered the same opportunities regardless of gender, race, colour, religion, nationality, ethnic origin, age, sexual orientation, marital status or disability. It is the Group's policy to apply best practice in the employment of the disabled, including, wherever possible, the retraining and retention of staff who become disabled during their employment.

Payment policy

Amounts due to suppliers are settled promptly within their terms of payment, except in cases of dispute. The number of creditor days outstanding for the Company at 31st December 2010 was 7.2 days (2009: 1 day).

Auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting.

Post balance sheet events

Details of events which have occurred since 31st December 2010 and up to the date of this Report are disclosed in note 27 to the financial statement on page 98.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

1. So far as he/she is aware, there is no relevant audit information of which the Group's auditors are unaware; and
2. He/she has taken all the steps that he/she ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the Board of Directors

Signed by order of the Board:
G Prothero
Finance Director
1st March 2011

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Development Securities Ordinary shares are listed on the Official List of the UK Listing Authority and, as such, the Company is required to state whether it has complied with the provisions for corporate governance contained within the Combined Code on Corporate Governance.

The Board confirms that the Company has applied the main provisions and has complied with all of the provisions set out in Section 1 of the June 2008 Combined Code on Corporate Governance during the financial year under review. The full code can be found at www.frc.org.uk.

In May 2010 the Financial Reporting Council issued a new edition of the code, named The UK Corporate Governance Code, which will apply to financial years beginning on or after 29th June 2010. Therefore the new code will be followed for the financial year beginning 1st January 2011.

The Board is committed to maintaining high standards and levels of integrity within a corporate governance framework which underpins the ethos of the Company. Constructive dialogue has continued to be built up over the year between stakeholders and has strengthened investor confidence. The Company's governance principles have been, and will continue to be kept under review as the Directors believe that a sound corporate governance framework is key to achieving the Company's objectives and discharging its legal and regulatory responsibilities.

The Company's going concern statement can be found in the Financial Review on pages 35 to 41 and is incorporated here by reference.

The Board

The Board is collectively responsible for the success of the Company and in this capacity has over the financial year under review dispensed independent judgement in relation to, but not limited to, strategy, executive performance and retention, remuneration and succession, financial performance, the issue of any securities, significant borrowing facilities, development opportunities, investment portfolio acquisitions and disposals, corporate reputation and communication, internal control and risk management and the Board's own effectiveness. In carrying out its responsibilities, the Board takes into account the size, and complexity of the Group, and internal control measures employed to determine those formal matters reserved to the Board and those delegated to its various Committees or the Executive Directors.

The Board met eight times during the year and held one meeting solely to consider the Group's strategy. The Chairman and the Non-executive Directors met on one occasion during the year with no Executive Directors in attendance.

The Board during the financial year consisted of four Executive Directors, three Non-executive Directors and a Non-executive Chairman. The Company considers all the Non-executive Directors to be independent. The Chairman was considered independent on appointment. S C Bates joined the Board on 15th January 2010, following which there were five Non-executive Directors, until P V S Manduca stepped down as Non-executive Director on 7th May 2010.

The current ratio of Executive and Non-executive Directors is permissible for a smaller company under Code provision A.3.2. The Non-executive Directors provide a valued role by contributing to the decisions and challenging aspects of executive decisions to produce a considered and independent outcome to Board deliberations. The roles and remit of the Chairman and the Executive Directors are set out in writing and agreed by the Board.

V M Mitchell was appointed to the role of Senior Independent Director on 7th May 2010 following P V S Manduca resigning at the AGM.

As in previous years, the Board has undertaken a formal performance evaluation of the Board as a whole, its Committees and individual Directors to ensure effective contribution and maintenance of commitment. V M Mitchell chaired a meeting of the Non-executive Directors without the Chairman or Executive Directors present, at which, inter alia, the performance of the Chairman was reviewed on behalf of the Board. The evaluation was conducted by means of a questionnaire which was co-ordinated and collated by the Interim Company Secretary. The responses were considered by the Board and suggestions for improvements have been implemented.

All Directors have access to the services of the Interim Company Secretary and may seek independent professional advice as necessary, at the Company's expense, and subject to the consent of the Chairman. Upon election, or re-election, Non-executives are invited to serve for three-year fixed terms. All Non-executive Directors have confirmed that they have sufficient time to

dedicate to their role. Their terms of appointment are available from the Interim Company Secretary and details of the Non-executive Directors' letters of appointment are detailed in section 1k of the Remuneration Report on page 57. Directors may receive appropriate training on introduction and whilst in office.

To promote internal communication and improve efficiency, the Board delegates responsibility for certain matters to Standing Committees which report back to the Board.

Audit Committee

The Audit Committee comprises, V M Mitchell, D S Jenkins, and S C Bates. S C Bates joined as a member on 27th January 2010 and succeeded P V S Manduca as Chairman following the 2010 AGM.

The Company's Chief Executive and Finance Director, attend the Audit Committee meetings by invitation. The Committee also met without Executive Directors present and S C Bates as Chairman of the Committee met separately with the auditors.

The Committee met three times during the year. A meeting was held to agree the terms of engagement, proposed approach and the fees of the annual audit. As is standard each year, two of the meetings take place prior to the issue of the preliminary full-year and interim results in order to consider any significant issues arising from the audit and review processes. The Board has determined that D S Jenkins has 'recent and relevant financial experience' for the purposes of the Combined Code.

It is within the Committee's remit to recommend the appointment of the external auditors, advise on the Group's accounting policies and monitor the treatment of areas of major judgement in the Group's financial statements. Furthermore, it acts as a conduit between the Board and the external auditors.

Apart from conducting the annual audit, PricewaterhouseCoopers LLP was also engaged during the year to conduct a review of the interim results to 30th June 2010 and provided tax advisory, compliance and planning services at a total cost of £694,000. This figure also incorporates the substantial compliance work undertaken in relation to the Placing and Rights Issue which PricewaterhouseCoopers LLP are best placed to undertake as the Company's auditor. PricewaterhouseCoopers LLP also provided due diligence support on the acquisition of the Henry Davidson Developments Group and the Manchester Arena Complex. An analysis of the non audit fees can be found in note 4 to the financial statements. During the year a non audit services policy was approved and adopted by the Committee providing for added control measures around the instruction of the auditors to undertake non audit work. Given the clear efficiencies and value-added benefits to the Company of combining the audit and consultancy roles, additional scrutiny was placed on the independence and objectivity of PricewaterhouseCoopers LLP. The Audit Committee was satisfied as to their independence and accordingly recommend their re-appointment as auditors. This was subsequently ratified by the Board and accordingly the re-appointment of PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting. PricewaterhouseCoopers LLP has been the independent auditors of Development Securities PLC since 2008.

Nomination Committee

The Nomination Committee comprises D S Jenkins as Chairman, V M Mitchell and M H Marx. As from 7th May 2010, V M Mitchell became a member following P V S Manduca's resignation. The Nomination Committee has reviewed the size, structure and composition of the Board and devises and implements succession plans for appointments to the Board, which are fulfilled through an effective search, interview and evaluation process based upon objective criteria.

The Nomination Committee meets as necessary. In the year under review it met twice, once to discuss and recommend the election of S C Bates and the re-election of those Directors retiring by rotation at the 2010 Annual General Meeting. A second meeting discussed succession planning in respect of two of the Non-executive Directors who will soon be reaching nine years of service on the Board. At a meeting held in February 2011 the Committee approved the retirement by rotation of C J Barwick and the voluntary re-election of the whole Board in accordance with best practice in connection with the recent Rights Issue.

Remuneration Committee

The Remuneration Committee comprises M S Soames as Chairman, V M Mitchell and D S Jenkins. The Committee is authorised to determine remuneration policy, details of which can be found in the Remuneration Report on pages 52 to 59.

The policy includes the exercise of powers to grant options under the Group's option schemes to the Executive Directors and senior managers and awards under the Performance Share Plan. In addition the policy specifies the framework for determining the annual bonus, awards under the Development Profit Plan, Joint Venture Profit Plan, Strategic Profit Plan, the Investment Growth Plan and ad hoc bonuses for exceptional contributions.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	8	3	2	4
D S Jenkins	8	3	2	4
M H Marx	8	—	2	—
G Prothero	7	—	—	—
C J Barwick	8	—	—	—
M S Weiner	7	—	—	—
P V S Manduca*	3 [3]	1 [1]	1 [1]	—
V M Mitchell	8	3	2	4
M S Soames	8	—	—	4
S C Bates	8	3	—	—

* The numbers in brackets represent the maximum number of meetings that a Director could attend during 2010.
Paul Manduca resigned as Non-executive Director and Senior Independent Director at the AGM on 7th May 2010.

Approvals Committee

The Approvals Committee comprises two Executive Directors and a minimum of two Non-executive Directors. Its remit is to permit the approval of transactions between £2.0 million and £5.0 million, which are then reported to the Board. Transactions below £2.0 million are delegated to the relevant Executive Directors responsible and those above £5.0 million are under the remit of the Board.

The terms of reference of the Audit, Nomination and Remuneration Committees, as determined by the Board, are available upon request from the Interim Company Secretary and are also published on the Company's website, www.developmentsecurities.com.

The above table sets out the attendance of the Directors at the meetings of the Board and the Audit, Nomination and Remuneration Committees held during 2010.

Relations with shareholders

The Executive Directors have regular dialogue with institutional shareholders. The Chairman, Senior Independent Director and Non-executive Directors are available at any time to meet with them. No shareholders asked to meet with V M Mitchell or P V S Manduca, the Senior Independent Directors during the year. The Company's Annual General Meeting provides an opportunity to respond to shareholders' appropriate questions. Directors are introduced to shareholders at the Annual General Meeting, including the identification of Non-executives and Committee Chairmen. The Company's website www.developmentsecurities.com is updated at the same time as the Regulated Information Service, to provide additional information dissemination for shareholders. Shareholders are also invited to free subscription of the Company's e-mail news alert service on the Company's website.

Internal control

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's system of internal control to safeguard shareholders' investments and protect the Company's assets. The operational, financial and compliance risk controls are designed to manage risk rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has conducted a thorough risk assessment of the business, identifying risks, their potential impact, likelihood of occurrence, controls and mitigating actions, together with early warning systems and further actions which need to be implemented.

Detailed below is a description of the Group's internal control and risk management used in the process of preparing the consolidated financial statements.

The regular process of identifying, evaluating and managing significant corporate risks has been delegated by the Board to a Risk Committee, consisting of M H Marx as Chairman, C J Barwick, M S Weiner, G Prothero and three senior managers, R C McCubbine, D P Redstone and D A K Trench. It has been agreed that from 1st January 2011 there will be at least one Non-executive Director in attendance at meetings of the Risk Committee.

The Committee meets quarterly during the year to ensure that the Group's risk management procedures are comprehensive and appropriate for the current economic climate, regulatory requirements and business operations. The Committee's remit includes all of the Group's subsidiaries and those joint ventures and associates which are administered by the Company. Those joint ventures and associates not internally administered do not form part of the review process and in such circumstances, the Committee maintains a current schedule of risks, their likelihood of occurrence and prospective impact which it assesses for completeness at each meeting. The minutes of the Committee's deliberations are reviewed by the Board. In addition to the activities of the Risk Committee, a risk-evaluation on each significant prospective development, investment or joint venture opportunity is evaluated by the Board, and for development opportunities, the risks are evaluated by an internal independent Project Review Committee. The Executive Directors regularly evaluate the Group's risk-weighted development exposure, which is then considered by the Board. All necessary actions have been or are being taken to remedy any weaknesses acknowledged from the quarterly reviews. No significant failings were identified over the year.

A 'whistleblowing policy' has been prepared and issued to all staff in the Group, outlining arrangements by which they may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other issues.

During the financial year under review the Company appointed H W Fisher as its internal auditors, to carry out a review of the control processes employed in specific areas of the business.

In recent years the Directors have procured a number of internal audit reports from an external service provider, instructed ad hoc on specific issues. During 2010 the Directors decided that, in view of the Company's increasing size and complexity, it is appropriate to formalise this role into a continuous service. Accordingly H W Fisher has been appointed as the Group's internal auditor, reporting to the Audit Committee.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31st December 2010 and to the date of this report, and considers that there is an ongoing process for identifying, evaluating and managing the Group's significant risks including financial, operational and compliance controls and a risk management system; that has been in place for the year ended 31st December 2010 and up to the date of approval of these financial statements, that it is regularly reviewed by the Board, and that there is a sound system of internal control which accords with the Turnbull Guidance.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under this law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the period. In preparing these Financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS's, as adopted by the European Union and applicable UK Accounting Standards, have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the Financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Remuneration Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS's as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Report of the Directors incorporating the Summary page, the Chairman's Statement, Chief Executive's Statement, the Business Model, Operating Review, Financial Review, Corporate Responsibility and Board of Directors includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
V M Mitchell
Senior Independent Director
1st March 2011

Remuneration Report

Dear Shareholder

I am pleased to introduce the Remuneration Report for the year 2010.

The Remuneration report has been divided into three parts:

- Overview – summary of the total remuneration policy;
- Remuneration explained – disclosures on Executive Directors' and senior managers' pay outlining the incentive plans; and
- Remuneration in detail – detailed audited disclosures which are required by the Directors' Remuneration Regulations.

The Remuneration Committee (the "Committee") is responsible for determining the remuneration policy for the Company's Executive Directors and for ensuring that the remuneration of senior managers and other employees is consistent with the Company's remuneration philosophy. The Committee has considered the performance of the Company over the year, the impact of the strategy set previously and the strategy for future years. The Committee, in light of the economic environment and current property market, has sought to reinforce the Company's objectives through the implementation of the remuneration policy approved by shareholders in 2010. The Company has complied throughout the period with the requirements of the Combined Code in relation to Directors' remuneration.

In reaching a view on performance, there is no doubt that the Company's senior management team continue to respond appropriately to the economic and market cycle. The equity raising issue in 2009 can now be confirmed to have taken place at the low point in the cycle, allowing the Company to take full advantage of opportunities offered.

The Committee considered the key achievements over the year were as follows:

- The completion of the commitment of the proceeds from the 2009 equity raising.
- A further successful share offering concluding in August 2010 which has enabled the Company to reach a size which will generate new opportunities.
- A significant turnaround to achieve profits before tax of £2.6 million compared to the previous year's £11.4 million loss.
- The consolidation of existing strategic partnerships with CTP, Wessex Investors, Beyond Green and Barwood, and the commencement of the new partnership with Patron Capital. Together with a number of other projects in partnership with sector specialists, these ventures provide diversity of income and risk, as well as geographic spread.
- The acquisition of the Henry Davidson Developments Group.
- A start to the investment of the proceeds of the 2010 equity raise. A number of assets and projects have been secured, in line with the strategy set out in the July 2010 prospectus, at prices which offer strong opportunities to add value.
- The investment portfolio has achieved another exceptional performance, achieving a total return of 15.2 per cent. Although only equal to the IPD Quarterly Index, it is noteworthy that this was achieved with no Central London exposure in the portfolio. The Index performance excluding Central London was 10.5 per cent.
- The development pipeline has been focused on regional development, particularly of the retail sector, whilst existing Central London development schemes and Slough have been maintained ready for the start of the next cycle.
- Management of the Company's risk profile, including maintenance of a modest level of net debt throughout the year ensuring that there continued to be no need for recourse to shareholders for emergency equity funding.

The salaries for the Executive Directors have been kept at the 2010 levels. Following a market review of the fees of the Non-executive Directors it was agreed to increase their fees in line with market competitive levels.

During 2009 the Committee undertook a substantive review of its executive remuneration arrangements. This was to ensure that arrangements would support the Company's strategy as it moved forward into the next stage of its development at the start of the next UK commercial property cycle.

During 2010 we made no changes to the framework introduced at that time.

The focused profit plans relating to the principal activities of the Company (development, investment and joint ventures) continue to be a key part of our performance-based pay arrangements, alongside the annual bonus and the performance share plan.

The Development Profit Plan (section c) has resulted in bonuses being paid to M S Weiner and another senior manager for the successful completion of the development at Wallington. New Development Profit Plan awards have been made to the Directors and senior managers.

The Committee has reviewed the awards for the Strategic Profit Plan and Joint Venture Profit Plan for 2010 (sections d and f).

The Investment Growth Plan (section e) resulted in a nil vesting as performance conditions were not satisfied for the 2010 Initial Bonus.

Awards under the Performance Share Plan were made on 23rd April 2010 to the Executive Directors and staff. An assessment of the performance condition for the award made under the Plan on 13th May 2008 resulted in a nil vesting.

A resolution will be proposed to the Shareholders at the Annual General Meeting seeking their approval of this report.

Michael Soames
Chairman, Remuneration Committee
1st March 2011

The following is a summary of the elements of total remuneration:

Fixed elements	Variable elements	
	Short-term	Medium and long-term
Base salary Pensions Benefits in kind – motor vehicles, cash in lieu of motor vehicle, fuel and medical insurance	Annual Bonus	Development Profit Plan Joint Venture Profit Plan Strategic Profit Plan Investment Growth Plan Performance Share Plan Save as you Earn share options Executive share options
Minimum shareholding requirement		

Overview

The key objectives of the Company's Remuneration policy are as follows:

- to ensure that Executive Directors and senior managers are rewarded in a way that attracts, retains, motivates and rewards management of the highest quality;
- to operate focused profit plans and share schemes designed to encourage Executive Directors and senior managers to align their long-term career aspirations with the long-term interests of the Company and shareholders' expectations;
- to promote the attainment of both individual and corporate achievements measured against performance criteria required to deliver long-term growth and sustainability of the business; and
- to encourage sustained performance over the medium and long-term.

The total pay framework is based on a mixture of fixed and variable elements considered on a meritocratic basis at individual and Group level, taking into account the remuneration awarded to employees in the Group.

The balance between fixed and variable pay is considered appropriate, given that the various incentive plans/schemes ensure a significant proportion of a key individual's remuneration package is performance related, thereby correlating with the interests of shareholders through either the attainment of growth in net asset value per share or total shareholder return.

Role and constitution of the Committee

The Committee's full terms of reference are set out on the Company's website. Its principal role is to determine the total remuneration of the Executive Directors and to ensure that senior management remuneration is consistent with corporate policy. In addition to the support of the Chief Executive, and the Company Secretary, the Committee sought professional advice from external remuneration consultants Deloitte LLP and legal support from Linklaters LLP. Representatives of Deloitte LLP attended two meetings of the Committee by invitation. Deloitte LLP currently undertakes the audit of the Development Securities Retirement Benefit Scheme of which the Company is a Trustee, but otherwise undertakes no other work for the Company. Linklaters LLP are also the Group's principal legal advisor.

The Remuneration Committee as constituted by the Board

The Committee met four times in the year under review.

Committee members	Considered independent Non-executive Directors	Meetings attended
M S Soames (Chairman)	Yes	4
V M Mitchell	Yes	4
D S Jenkins	Yes*	4

*Non-executive Chairman.

Following the Board evaluation process the effectiveness of the Committee was reviewed and the Committee was considered to be operating effectively. No member has any personal financial interest in the matters to be decided.

Remuneration explained

a) Salary

The salaries of the Executive Directors are reviewed each year and are determined by reference to individual performance and in relation to comparable companies in the same business sector. The Committee have considered carefully the level of the base salaries payable to the Executive Directors with effect from 1st January 2011 and, having consulted Deloitte LLP, the Company's remuneration consultant, have determined that the base salaries should remain at the 2010 level.

The Committee considers the salary increases of Executive Directors at the same time as increases proposed for all employees within the Company. It applies the same criteria to Executive Directors as are applied to all employees, taking account of any changes to roles as well as relevant market movements. For 2010 the zero increase that was applied for the Executive Directors was substantially below the average increases awarded to employees across the Company.

	2011 £'000	**2010 £'000**	2010/2011 Increase %
M H Marx	400	**400**	0.0
C J Barwick	325	**325**	0.0
M S Weiner	325	**325**	0.0
G Prothero	325	**325**	0.0

b) Annual bonus

The non-pensionable annual bonus is based on the performance of the Company during the year, team achievements and the specific contribution of the individuals concerned. With the exception of M H Marx, Executive Directors are set a target bonus of 37.5 per cent of salary and an above target maximum of 75.0 per cent. As M H Marx only occasionally qualifies for awards under the Development Profit Plan described below, his target bonus is 75.0 per cent of salary, with a maximum of 150.0 per cent.

The Committee has always taken a somewhat different approach to the annual bonus compared to our competitors in that the annual bonus has never been formulaically driven by the annual financial results but reflects a true measure of annual performance in the context of the length of the property cycle. The annual bonus in respect of the Executive Directors is determined principally by the four main drivers for the creation of shareholder value in our business: namely, accurate reading of the economic and market cycles in which we operate, the pipeline of future development projects, active management of the investment portfolio and the maintenance of the standards of excellence that are embedded within the Company's corporate culture. Specifically this year consideration was given to the success of the investment of the proceeds of

Remuneration explained continued

the 2009 and 2010 equity raising issues and the asset management at the properties purchased. In addition, the Committee measures the Company's absolute and relative performance against its peer group companies during the year.

The Committee considered 2010 to be a year which had 'Exceeded Target' taking into account the achievements during the year. The following bonus awards were made in 2010, with 50.0 per cent of the bonus earned above target paid in shares which the recipient must hold for at least two years.

	2010 £'000	2009 £'000	**2010 % of target maximum**	2009 % of target maximum
M H Marx	**378**	378	**63**	80
C J Barwick	**170**	170	**70**	80
M S Weiner	**170**	170	**70**	80
G Prothero	**170**	170	**70**	80

c) Development Profit Plan

The Committee reserves the right to make awards under the Development Profit Plan to Executive Directors and other senior managers who have been instrumental in securing development opportunities for the Group.

Awards are eligible on projects where any phase is likely to produce profits in excess of £2.0 million. No more than 10.0 per cent of the profits of each development project is awarded in total. When any particular development project becomes unconditional, the Committee determines which individuals should receive awards under the Plan and the amount of the award. The bonus is dependent principally upon the amount of profit actually realised upon completion. 20.0 per cent of the award is retained until such time as the profit is actually realised, whereupon it will be re-evaluated to determine if any additional Executive Directors or senior managers have been instrumental in making a significant and material contribution in progressing the scheme through to completion and, if not, this retention would revert to the original participants.

In awarding annual bonuses and awards under the Development Profit Plan, there is no 'double-counting'. The contribution of any team and individual performance, which leads to awards under the Development Profit Plan are disregarded in assessing the annual bonus.

The principal awards, omitting those schemes where current forecasts show a nil or nominal profit, have been made to the Executive Directors under the Development Profit Plan:

Project	M H Marx % award	C J Barwick % award	M S Weiner % award
Awards granted in previous years:			
PaddingtonCentral Phase III (2 Kingdom Street)	—	7.0	—
Colindale, London NW9	—	4.0	4.0
Broughton, Flintshire	3.33	—	—
St Bride Street, London EC4	—	6.0	—
Hammersmith Grove, London W6	—	3.5	3.5
Awards granted during the year:			
Hale Barns, Manchester	—	—	6.5
Westminster Palace Gardens, London SW1	1.0	—	5.5
Shepherds Bush Market	—	1.0	5.5
Littlehampton	—	—	5.5
Greenwich, London	—	—	7.0
Airport House, Croydon	—	—	6.5
Moreton Woods	—	—	3.0
Dartmouth	—	—	1.0

Additional awards under the Development Profit Plan have been made to senior managers.

Following practical completion of Wallington, M S Weiner received £75,694 from maturity of his Development Profit Plan award.

In addition to making awards under the Development Profit Plan for securing development opportunities, the Remuneration Committee retains the discretion to award bonuses to Executive Directors and other senior managers at any time for making an exceptional contribution towards the Company. Such awards will not be applied in securing any corporate acquisitions.

d) Joint Venture Profit Plan

The Committee reserves the right to make awards under the Joint Venture Profit Plan to Executive Directors and other senior managers who have been instrumental in securing profits generated from joint ventures.

Awards are made when joint ventures are likely to produce a total profit in any one year of more than £2.0 million. No more than 10.0 per cent of this profit is awarded in total. In any given year, the Committee determines which individuals should receive awards and the amount of the award for each of the joint ventures for the following year.

In assessing the profit from each joint venture, all profits remitted during the year on successful projects are cumulated and all projects which have either crystallised or are forecast to make a loss are deducted. Any actual profits/losses realised in subsequent years will be rationalised against forecast losses already taken into account.

In awarding annual bonuses, there is no 'double counting'. The contribution of any team and individual performance which leads to awards under the Joint Venture Profit Plan is disregarded in assessing the annual bonus.

No payments have been made to Executive Directors during the year.

Awards for joint ventures have been made to an Executive Director and a senior manager.

e) Investment Growth Plan

The Committee reserves the right to award bonuses under the Investment Growth Plan. The performance condition under the award is that the total investment portfolio return must exceed 120.0 per cent of the All-Fund Universe Index as published by Investment Property Databank if the Index is greater than zero, or at least 0.1 per cent if the Index is less than or equal to zero and, in addition, represents at least one percentage point above the total return under the index. The total investment portfolio return represents the sum of income return, net of irrecoverable property expenses, together with capital growth.

The Initial Bonus represents a bonus pool of 5.0 per cent of the value determined by the excess of the total investment portfolio return over the benchmark index up to a cap of £1.0 million unless otherwise determined. The award is remitted following the end of the financial year when the award is determined, with an equivalent amount representing a Deferred Bonus assessed two years thereafter, provided that during the intervening period the total investment portfolio return exceeds a specified proportion of the index.

As at the date of this report the 2010 Annual All-Fund Universe Index had not been published by Investment Property Databank. A review against the All-Fund Index will be undertaken when the Index is made available. Based on performance during the year against the IPD Quarterly Index, no payments are expected to be made to eligible participants. Any subsequent change to this position, if any, will be disclosed in the 2011 Remuneration Report.

No Initial Bonus was paid in respect of 2008 therefore no Deferred Award was able to be tested.

f) Strategic Profit Plan

The Strategic Profit Plan was approved by shareholders in 2010. The Strategic Profit Plan is a cash incentive scheme designed to incentivise Executive Directors and senior management in all the principal activities of the Group, namely development, joint ventures and the investment portfolio. The Plan introduces a Group-wide collegiate aspect to rewarding success, and supporting co-operation as our executives deliver on the significant opportunities that exist across our market.

The bonus pool available for distribution represents an additional 4.0 per cent of the profits achieved (as adjusted) which count towards the maximum amount under both the Development Profit Plan and Joint Venture Profit Plan for that financial year and 2.0 per cent of each of the Initial Bonus and Deferred Bonus pools achieved under the Investment Growth Plan. Awards would be made to individuals at the discretion of the Committee. In doing so, the Committee will take into account whether individuals are already eligible for awards under the Development Profit Plan, Joint Venture Profit Plan and Investment Growth Plan. As a guideline, 75.0 per cent of the bonus pool will be allocated to the Executive Directors and 25.0 per cent to senior management.

Awards will be subject to a risk underpin such that the Committee must be satisfied that performance has not been achieved as a result of inappropriate financial risk (e.g. very high levels of gearing), and that the level of financial and business risk is in line with the Company's stated strategy. In making awards to individuals, the Committee will also take into account the overall performance of the Company.

No awards have been approved under the Strategic Profit Plan in respect of 2010.

g) Performance Share Plan

Awards under the Performance Share Plan are made on the basis that shares will be acquired subject to the satisfaction of performance conditions over a three-year period, with no retesting. Performance is measured by comparing the Total Shareholder Return ('TSR') achieved by the Company with the individual constituent members of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. There is a sliding scale of vesting as follows:

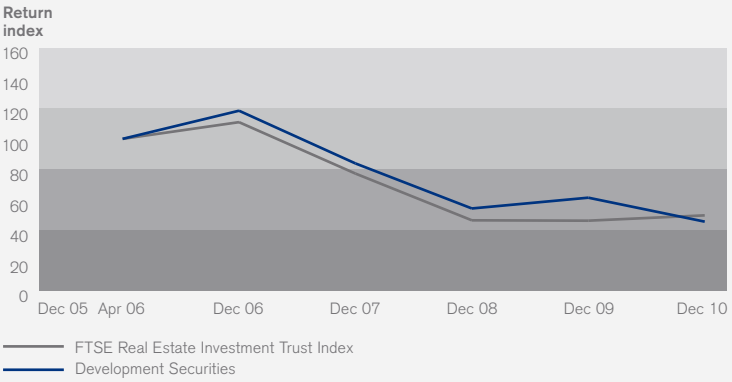
i) 25.0 per cent of the award will vest if the Company's TSR equals the median TSR of the comparator group;
ii) 100.0 per cent of the award will vest if the Company's TSR equals or exceeds the 85th percentile TSR of the comparator group; and
iii) pro rata vesting will apply in-between the above points.

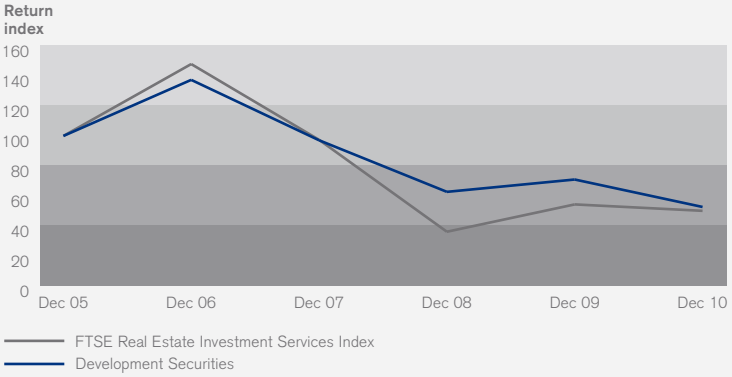
In addition, the Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance over the performance period (typically by considering the change in net asset value). For awards from 2010, a risk underpin (as described above) will also apply.

On 23rd April 2010, awards were made under the Performance Share Plan to M H Marx of 112,676 shares in the Company representing 75.0 per cent of salary, and to C J Barwick, M S Weiner and G Prothero of 61,033 shares each representing 50.0 per cent of salary. As part of the realignment of the incentive remuneration package last year, these awards represent 50.0 per cent of the 2009 award levels. In total, 527,621 shares were, at the discretion of the Committee, awarded to 31 employees and the four Executive Directors.

The performance condition under the award made on 13th May 2008 has now been assessed and there is a nil vesting.

Historical Total Shareholder Return Performance





The above graphs demonstrate the Company's TSR as represented by share price growth plus reinvested dividends, against both the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. The FTSE All Share Real Estate Index used in previous years has ceased to be published and having reviewed the constituents of the previous index it is considered that the constituents of these two indices are the most appropriate for comparison of the Company's business performance against that of its competitors. The Company is a constituent of the FTSE Real Estate Investment Services Index, but a number of constituents of the FTSE Real Estate Investment Trust Index are also considered as within the Company's peer group.

h) Option Scheme 1993

The Option Scheme 1993 is a share-based bonus scheme approved by shareholders in that year. It allows individuals to benefit from movements in the price of the Company's shares over the period between the third and tenth year following grant. The Directors may at the date of grant limit the aggregate notional bonus which may become payable.

No new grants have been made during the year and none are currently outstanding.

i) Share option schemes

The Executive Share Option Scheme 1995 was approved by shareholders in that year. This was replaced by the Executive Share Option Plan 2005 which was approved by the shareholders at the 2005 Annual General Meeting on 12th May 2005. The options under both schemes were granted on the basis that they may only be exercised if a performance condition is satisfied.

Options over 120,000 shares were granted to six senior managers under the Executive Share Option Scheme 2005.

The performance condition for those options outstanding is to measure the average net asset growth of the Company over three consecutive financial years against the growth in the Investment Property Databank Index (All Property). The options will vest on a sliding scale with 50.0 per cent if average net asset growth is at least equal to that of the Index, 100.0 per cent if in excess of the Index by 4.0 per cent per annum and pro rata vesting in between. The performance condition will not be retested after the end of the performance period. The performance condition is considered appropriate as the Index measures against the Company's added value.

It is the intention of the Remuneration Committee that no further grants be made to Executive Directors unless in exceptional circumstances, for example, a new appointment or an acute retention requirement. Grants to senior managers may continue in the future as appropriate.

Following the declaration of a 28.5 pence special dividend on 19th February 2003, the Committee resolved that option holders may receive, upon exercise of those options then outstanding, a cash bonus equivalent to the special dividend as equitable compensation.

j) Savings related option scheme

The Save As You Earn Option Plan 2005 was approved by shareholders at the 2005 Annual General Meeting. The third grant under the Plan was made on 28th October 2008. There were no grants for 2010. The options may be exercised after three years at a price not less than 80.0 per cent of the market value of the shares at the time of invitation. Following recent equity raised the outstanding options were adjusted in accordance with a formula proposed by Linklaters LLP and approved by HMRC creating a revised option price of 274.1645 pence over 70,993 options in favour of the 27 remaining members of staff.

k) Directors' contracts

Executive Directors:	Date of contract
M H Marx	24th June 1994
C J Barwick	12th May 1998
M S Weiner	17th March 2004
G Prothero	11th June 2008

- The contracts do not specify an expiry date. All contracts may be terminated upon 12 months' notice by either party.
- Severance payments are based upon the service contract terms, whilst bearing in mind a duty to mitigate, where appropriate.
- In the event of early termination, the contractual entitlement includes salary, pension, benefits in kind and any awards outstanding under the sections described above, subject to the rules of the individual schemes and plans.

Non-executive Directors:	Notice period in letter of appointment, terminable by either party (months)	Fixed term expiry at AGM
D S Jenkins (Chairman)	12	2013
V M Mitchell	6	2012
M S Soames	6	2012
S C Bates	6	2013

The fees of the Non-executive Directors are determined by the Board within the aggregate limit set by the Articles of Association. No Director participates in any discussion about their own remuneration. The fees of the Non-executive Directors were reviewed by the Board with effect from 1st October 2010 based on advice received from the Company's remuneration consultants, Deloitte LLP. Following P V S Manduca stepping down on 7th May 2010 no compensation was paid to him for loss of office as Non-executive Director or Audit Committee Chairman. Non-executive Directors do not participate in the Company's share option schemes, performance share plan or pension scheme.

Non-executive Director fees	2011 £'000	**2010 £'000**
Chairman	90.0	**60.0**
Basic Non-executive fee	40.0	**30.0**
Chairmanship of either Audit or Remuneration Committee	7.5	**7.5**
Membership of either Audit or Remuneration Committee	2.5	**2.5**
Senior Independent Director fee	5.0	**2.5**

Executive Directors may accept appointment to an external non-executive directorship to gain experience, provided this does not create any conflict of interest and for which they may retain any attributable fees. The only Executive Directors to have received any external non-executive directorship fees during the year were M H Marx, who received £35,000 from Nationwide Accident Repair Services PLC and C J Barwick, who received £45,000 from London & Continental Railways Limited.

l) Retirement benefits

Qualifying members of staff are invited to join the Development Securities PLC retirement benefits scheme, which is a contracted-in money purchase scheme, including appropriate life assurance. Since the Company's policy is to render pension payments on a defined contribution basis, this avoids the uncertainty of pension liabilities to the Company, which would be the case had a defined benefit scheme been adopted. M H Marx and G Prothero have separate personal pension arrangements, whilst C J Barwick and M S Weiner are members of the Company scheme. The maximum contributions by the Company towards the approved Company scheme and any alternative arrangements may not exceed a total of 17.5 per cent of salary.

m) Executive Directors' shareholding requirement

During 2003, it was determined that Executive Directors should align themselves with shareholders' interests, with any new Executive Director obliged to establish a beneficial shareholding to the value of one-half of their basic salary within two years of appointment, rising to an amount equivalent to basic salary after four years. M H Marx, C J Barwick, and M S Weiner have all met the amount equivalent to basic salary, with G Prothero yet to reach this level. Directors' shareholdings are disclosed below.

The interests of the Directors, all of which were beneficial, in the share capital of the Company, were:

Ordinary shares	**2010 Number**	2009 Number
D S Jenkins	**34,325**	24,230
M H Marx	**529,525**	367,665
C J Barwick	**272,399**	188,507
M S Weiner	**138,937**	94,299
G Prothero	**61,396**	25,450
V M Mitchell	**3,544**	2,502
M S Soames	**58,900**	41,577
S C Bates	**—**	—
	1,099,026	744,230

All Directors took up their full entitlement under the Placing and Rights Issue.

Remuneration in detail – Directors' emoluments (audited)

The total Directors' remuneration was as follows:

	2010 £'000	2009 £'000
Emoluments	**2,622**	3,549
Company contributions to money purchase pension schemes	**233**	200
	2,855	3,749

The remuneration of the individual Directors who held office during the year is set out below:

	Salaries and fees £'000	Total bonus £'000	Benefits in kind £'000	**Total 2010 £'000**	Total 2009 £'000	**Pension contributions 2010 £'000**	Pension contributions 2009 £'000
Chairman:							
D S Jenkins	67	—	—	**67**	60	**—**	—
Executive Directors:							
M H Marx*	400	378	22	**800**	714	**65**	53
C J Barwick	325	170	26	**521**	751	**56**	49
M S Weiner	325	245	16	**586**	1,443	**56**	49
G Prothero	325	170	17	**512**	469	**56**	49
Non-executive Directors:							
P V S Manduca (up to 7th May 2010)**	13	—	—	**13**	40	**—**	—
V M Mitchell	39	—	—	**39**	35	**—**	—
M S Soames	40	—	—	**40**	37	**—**	—
S C Bates (from 15th January 2010)	44	—	—	**44**	—	**—**	—
	1,578	963	81	**2,622**	3,549	**233**	200

* Highest paid Director.

** No compensation for loss of office was paid to P V S Manduca following his resignation as Non-executive Director and Chairman of the Audit Committee.

Benefits in kind received during the year comprise motor vehicles, cash in lieu of a motor vehicle, fuel and medical insurance.

Directors' share schemes (audited)

Options:	1st January 2010 Number	Granted	Exercised	31st December 2010 Number	Exercise price Pence	Market price at exercise Pence	Gain on exercise £'000	Date from which exercisable	Expiry date
M H Marx									
Savings related scheme	3,501	—	—	3,501	274.1645	—	—	01.12.11	31.05.12
C J Barwick									
Savings related scheme	3,501	—	—	3,501	274.1645	—	—	01.12.11	31.05.12
M S Weiner									
Executive option scheme 1995	29,861	—	—	29,861	326.25	—	—	27.03.04	26.03.11
Executive option scheme 1995	69,382	—	—	69,382	347.50	—	—	19.04.07	18.04.14
Executive option scheme 2005	41,435	—	—	41,435	430.25	—	—	27.10.08	26.10.15
Executive option scheme 2005	41,435	—	—	41,435	559.75	—	—	28.04.09	27.04.16
Savings related scheme	3,501	—	—	3,501	274.1645	—	—	01.12.11	31.05.12

Performance Share Plan:	Date of grant	Market price at date of grant Pence	1st January 2010 Number	Granted	Lapsed	Exercised	31st December 2010 Number	Final vesting date
M H Marx	08.05.07	605.0	74,033	—	74,033	—	—	31.12.09
	13.05.08	408.75	129,100	—	—	—	129,100	31.12.10
	08.05.09	310.0	168,776	—	—	—	168,776	31.12.11
	23.04.10	264.0	—	112,676	—	—	112,676	31.12.12
C J Barwick	08.05.07	605.0	44,249	—	44,249	—	—	31.12.09
	13.05.08	408.75	77,460	—	—	—	77,460	31.12.10
	08.05.09	310.0	101,266	—	—	—	101,266	31.12.11
	23.04.10	264.0	—	61,033	—	—	61,033	31.12.12
M S Weiner	08.05.07	605.0	44,249	—	44,249	—	—	31.12.09
	13.05.08	408.75	77,460	—	—	—	77,460	31.12.10
	08.05.09	310.0	101,266	—	—	—	101,266	31.12.11
	23.04.10	264.0	—	61,033	—	—	61,033	31.12.12
G Prothero	08.05.09	310.0	101,266	—	—	—	101,266	31.12.11
	23.04.10	264.0	—	61,033	—	—	61,033	31.12.12

a) None of the Directors had a beneficial interest in the shares of any subsidiary company.

b) The mid-market price of the shares at the close of business on 31st December 2010 was 225.0 pence and the range during 2010 was 192.50 pence to 341.75 pence.

c) No options lapsed or were exercised during the year, except as disclosed above.

d) The performance condition under the Performance Share Plan award granted on 13th May 2008 has been tested during 2011, giving rise to a nil vesting. There were no further transactions between 31st December 2010 and the date of this report.

Approved by the Board and signed on its behalf by:

M S Soames
Chairman of the Remuneration Committee
1st March 2011

Contents of the Financial Statements

ww7.investorrelations.co.uk/devsec/ar10/financial-statements

Group Independent Auditors' Report

Independent auditors' report to the members of Development Securities PLC

We have audited the Group financial statements of Development Securities PLC for the year ended 31st December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31st December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 48 to 51 with respect to internal control and risk management systems and, in the Report of the Directors, about share capital structures is consistent with the Financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Parent company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 38 and 39, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent company financial statements of Development Securities PLC for the year ended 31st December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1st March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2010

	Notes	2010 £'000	2009 £'000
Revenue	2	**44,432**	35,070
Direct costs	2	**(31,058)**	(30,883)
Gross profit	2	**13,374**	4,187
Operating costs	2	**(12,907)**	(12,844)
Gain on disposal of investment properties	2	**313**	—
Gain on revaluation of investment property portfolio	10(c)	**8,769**	3,681
Operating profit/(loss)	4	**9,549**	(4,976)
Other income		**186**	41
Share of post-tax profits/(losses) of joint ventures and associates	12(b)	**2,914**	(10)
Provision for impairment of joint ventures	12(b)	**—**	(422)
Income from financial assets	16(a)	**—**	503
Loss on sale of other fixed assets		**(32)**	(14)
Profit on sale of investments	12(b)	**—**	221
Profit/(loss) before interest and income tax		**12,617**	(4,657)
Finance income	6(a)	**1,542**	2,065
Finance costs	6(b)	**(11,510)**	(8,795)
Profit/(loss) before income tax		**2,649**	(11,387)
Income tax	7	**(971)**	693
Profit/(loss) after income tax		**1,678**	(10,694)
Other comprehensive income:			
Loss on revaluation of operating properties	10(a)	**(310)**	(352)
(Loss)/gain on valuation of cross-currency interest rate swap	16(d)	**(2,819)**	2,794
Deferred income tax credit/(charge)	7	**761**	(783)
Total comprehensive income for the year attributable to owners of the parent		**(690)**	(9,035)
Basic earnings/(loss) per share*	9	**1.7p**	(16.8)p
Diluted earnings/(loss) per share	9	**1.7p**	(16.8)p

*Adjusted earnings per share from continuing activities is given in note 9.

The notes on pages 66 to 98 are an integral part of these Consolidated financial statements.

Consolidated Balance Sheet

As at 31st December 2010

	Notes	£'000	2010 £'000	£'000	2009 £'000
Non-current assets					
Property, plant and equipment					
– Operating properties	10(a)	**1,190**		1,580	
– Other plant and equipment	10(b)	**4,838**		4,212	
– Investment properties	10(c)	**199,237**		181,036	
Intangible assets – goodwill	11	**1,268**		—	
Other financial assets	16(a)	**27,240**		16,844	
Investments in associates	12(a)	**1,944**		1,500	
Investments in joint ventures	12(b)	**9,718**		—	
Trade and other receivables	14(a)	**2,861**		2,354	
Deferred income tax assets	17	**5,507**		3,912	
Derivative financial instruments	16(d)	**3,308**		7,473	
			257,111		218,911
Current assets					
Inventory – development and trading properties	13	**157,683**		78,555	
Other financial assets	16(a)	**467**		10,598	
Trade and other receivables	14(b)	**25,780**		23,016	
Cash and cash equivalents		**104,110**		80,574	
			288,040		192,743
Total assets			**545,151**		411,654
Current liabilities					
Trade and other payables	15(a)	**(24,987)**		(28,273)	
Borrowings	16(b)	**(523)**		(12,669)	
			(25,510)		(40,942)
Non-current liabilities					
Borrowings	16(b)	**(174,976)**		(113,533)	
Derivative financial instruments	16(d)	**—**		(2,126)	
Deferred income tax liabilities	17	**(5,507)**		(3,912)	
Provisions for other liabilities and charges	15(b)	**(6,051)**		(7,122)	
			(186,534)		(126,693)
Total liabilities			**(212,044)**		(167,635)
Net assets			**333,107**		244,019
Equity					
Share capital	18	**61,176**		41,128	
Share premium	19	**103,961**		103,961	
Revaluation reserve	19	**127**		437	
Other reserves	19	**43,264**		45,322	
Retained earnings	19	**124,579**		53,171	
Equity attributable to the owners of the parent			**333,107**		244,019
Basic net assets per share	9		**272p**		297p
Diluted net assets per share	9		**272p**		297p

The notes on pages 66 to 98 are an integral part of these Consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 1st March 2011 and signed on its behalf by

M H Marx
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2010

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1st January 2009		20,302	109,907	44,164	(13,328)	161,045
Loss for the year ended 31st December 2009		—	—	—	(10,694)	(10,694)
Other comprehensive income:						
Loss on revaluation of operating properties	10(a)	—	—	(352)	—	(352)
Gain on valuation of cross-currency interest rate swap	16(d)	—	—	2,794	—	2,794
Deferred income tax charged directly to equity	17	—	—	(783)	—	(783)
Total comprehensive income for the year ended 31st December 2009		20,302	109,907	45,823	(24,022)	152,010
Share-based payments		—	—	(64)	—	(64)
Net proceeds of issue of new shares	18	20,826	(5,946)	—	79,141	94,021
Final dividend relating to 2008	8	—	—	—	(974)	(974)
Interim dividend relating to 2009	8	—	—	—	(974)	(974)
Balance at 31st December 2009		41,128	103,961	45,759	53,171	244,019
Profit for the year ended 31st December 2010		—	—	—	1,678	1,678
Other comprehensive income:						
Loss on revaluation of operating properties	10(a)	—	—	(310)	—	(310)
Loss on valuation of cross-currency interest rate swap	16(d)	—	—	(2,819)	—	(2,819)
Deferred income tax credited directly to equity	17	—	—	761	—	761
Total comprehensive income for the year ended 31st December 2010		41,128	103,961	43,391	54,849	243,329
Net proceeds of issue of new shares	18	20,048	—	—	73,678	93,726
Final dividend relating to 2009	8	—	—	—	(1,974)	(1,974)
Interim dividend relating to 2010	8	—	—	—	(1,974)	(1,974)
Balance at 31st December 2010		61,176	103,961	43,391	124,579	333,107

The notes on pages 66 to 98 are an integral part of these Consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities	21	**(69,805)**	3,529
Cash (used in)/from operations:			
Capitalised interest charged to direct costs		**—**	2,084
Interest paid		**(13,831)**	(9,897)
Income tax paid		**(867)**	(75)
Net cash used in operating activities		**(84,503)**	(4,359)
Cash flows from investing activities:			
Interest received		**1,065**	741
Proceeds on disposal of plant and equipment		**200**	27
Proceeds on disposal of investment properties		**25,005**	—
Purchase of plant and equipment		**(1,479)**	(1,263)
Purchase of investment properties		**(34,124)**	(43,307)
Purchase of investments in joint ventures and associates		**(7,062)**	(1,500)
Purchase of subsidiary, net of cash acquired		**(1,574)**	—
Investment in financial assets		**(11,770)**	(3,228)
Cash outflow from joint ventures		**—**	(54)
Net cash used in investing activities		**(29,739)**	(48,584)
Cash flows from financing activities:			
Dividends paid		**(3,948)**	(1,948)
Issue of new shares (net of transaction costs)		**93,726**	94,021
Repayments of borrowings		**(48,289)**	(36,533)
New bank loans raised		**95,661**	18,189
Net cash from financing activities		**137,150**	73,729
Net increase in cash and cash equivalents		**22,908**	20,786
Cash and cash equivalents at the beginning of the year		**80,564**	60,352
Net foreign currency differences arising on retranslation of cash and cash equivalents		**(193)**	(574)
Cash and cash equivalents at the end of the year		**103,279**	80,564
Cash and cash equivalents comprise:			
Cash at bank and in hand		**77,114**	63,198
Pledged cash held as security against financial liabilities		**26,996**	17,376
Cash and short-term deposits		**104,110**	80,574
Bank overdrafts		**(831)**	(10)
Cash and cash equivalents at the end of the year		**103,279**	80,564

	2010 £'000	2009 £'000
Net debt comprises:		
Cash and short-term deposits	**104,110**	80,574
Financial liabilities:		
Current borrowings	**(523)**	(12,669)
Non-current borrowings	**(174,976)**	(113,533)
Net debt	**(71,389)**	(45,628)

The notes on pages 66 to 98 are an integral part of these Consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2010

1 Basis of preparation and accounting policies

a)

(i) General information

The Consolidated financial statements of the Group for the 12 months ended 31st December 2010 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 1st March 2011.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

(ii) Going concern

The Group adopts the going concern basis in preparing its Consolidated financial statements as discussed in the Financial Review on pages 35 to 41.

b) Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31st December 2010 and applied in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS. The accounting policies which follow set out those policies which apply in preparing the financial statements for the years ended 31st December 2010 and 31st December 2009.

The Consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through the Statement of Comprehensive Income.

The preparation of financial statements, in conformity with IFRS, requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated financial statements, are disclosed in note 1(c).

c) Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the Statement of Comprehensive Income and the Balance Sheet. Such decisions are made at the time the financial statements are prepared and adopted based on the best information available at the time. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent.

Judgements other than estimates

The Group earns revenue from property development, trading and investment. Property development includes the entire development process from identification of an opportunity through to construction, letting and sale of a completed scheme. This activity is undertaken both on the Group's own Balance Sheet, and in partnership with larger investors, usually via a pre-sale of the completed development. Property trading refers to participation in the development process, where the Group acquires an interest in land and enhances the potential development, for instance by procuring or changing planning permission, before selling on to a third party to complete the development. Property investment represents the acquisition of income-generating real estate which is held for the purposes of income and capital gain, through active asset management.

The varied nature of the Group's properties is such that a number exhibit characteristics consistent with more than one classification; also the Directors' strategy for an asset may change during its ownership. The Directors determine the status of each asset according to their principal purpose on acquisition. A change in classification would be made only in exceptional circumstances, where the strategy has demonstrably changed for a period of over one year (e.g. an asset originally acquired for development and resale might be held for investment purposes).

In addition to its directly owned and managed activities, the Group participates in similar activities in partnership with others, typically to access expertise in different locations or market sectors. The Group's financial participation may be by way of equity investment or loan. In each case a judgement is required as to the status of the Group's interest, as an associate, a joint venture or a financial asset. The Group's share of control is governed and achieved by a mixture of rights set out in agreements and participation in the management of each business. The Directors have considered the position in respect of each venture, taking account of the operation in practice, and have determined the status of each accordingly. These investments are reported under the relevant Balance Sheet headings, with a summary in note 26.

The Group sometimes acquires properties through the purchase of entities which own real estate. At the time of acquisition the Group considers whether the transaction represents the acquisition of a business. In cases where the entity is capable of being operated as a business, or an integrated set of activities is acquired in addition to the property, the Group accounts for the acquisition as a business combination. When the acquisition does not represent a business, it is accounted for as the purchase of a group of assets and liabilities. In making this distinction, the Group considers the number of items of land and buildings owned by the entity, the extent of ancillary services provided by the subsidiary, and whether the subsidiary has its own staff to manage the property (over and above the maintenance and security of the premises).

Where development is undertaken on the Group's Balance Sheet under a contract for a pre-sale, a judgement is required as to whether this represents a sale of property or a contract for construction as described in note 1(h)(iv). The hotel development at West Quay, Southampton, and the office at CityPark in Manchester are characterised as construction contracts (under IAS 11), whereby revenue is reported in line with construction progress. The amounts concerned are set out in note 3.

The Group's Curzon Park Limited joint venture owns a development site in Birmingham known as Curzon Street. The current proposal for the High Speed Train Link between London and Birmingham (HS2) indicates that the planned route of HS2 passes through the site, including provision for part of the prospective station. In view of this, the ultimate value of the site is uncertain. The early indications are that the impact of HS2 may restrict future development on the 105-acre site by approximately two thirds of its original potential. The Group has (jointly) guaranteed the liabilities of the joint venture to the bank, and hence should the value of the site (together with any compensation received) be insufficient to repay the bank loan, the Group may incur further charges in respect of its obligations to the joint venture and the bank. The Directors believe that the site will recover at least its carrying value in the books of the joint venture, although the interim and ultimate uses of the site and timing of its development remain unclear. The site is discussed in the Operating Review on page 24 and in the Financial Review on page 40, and in notes 12 and 23.

In view of operating losses at ECC, the Group's serviced office subsidiary, the Group has conducted an impairment review of its investment in the business. The review requires significant judgement about customer demand and competitor behaviour. The Directors are satisfied that there is no impairment to the business.

Estimates

The key source of estimation uncertainty rests in the values of property assets, which significantly affects several categories of asset in the Balance Sheet. The investment property portfolio is carried at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group's assets relative to market transactions.

The approach to this valuation and the amounts affected are set out in notes 1(i) and 10(d).

The same uncertainties affect the determination of fair value of certain available-for-sale financial instruments, described in note 16, with the further complexity that the value of these assets requires estimates of future construction costs, tenant demand and market yields.

The Group's development and trading properties are carried at the lower of cost and net realisable value. The determination of net realisable value relies upon similar estimates, with the added challenge, in some cases, of judgements about uncertain planning outcomes. These amounts are disclosed in note 13.

In March 2010 the Group acquired the entire share capital of Henry Davidson Developments Limited. IFRS 3R requires the Group to estimate the fair value of the assets and liabilities acquired, which demands an assessment of the value of land and work-in-progress for a number of projects whose outcomes are uncertain. Details of the approach taken and values ascribed are set out in note 20. The resulting goodwill is monitored for impairment, requiring a regular update of this calculation. At 31st December 2010 the fair value assessment was revisited (as permitted by IFRS 3R), in the light of events since the acquisition which have shed more light on circumstances prevailing as at the acquisition date. Details of the business combination are set out in note 20.

The Group is party to a number of interest rate swap and foreign currency agreements which are required by IAS 39 to be carried in the Balance Sheet at fair value. The estimation of this figure is based upon market assumptions about future movements in interest and exchange rates. The assumptions used, the estimated fair values and the movements in the period are set out in note 16.

The Group has significant deferred income tax losses, arising mainly from valuation movements in the Group's investment and trading property portfolios. Recognition of these losses as a deferred income tax asset requires judgements and estimates about the amounts and timing of the Group's future taxable profits. The balances are disclosed in note 17.

The Group has made provision against the cost of onerous lease obligations. In each case the Group is required to make assumptions about the likelihood, timing and rental levels of future lettings. These provisions are described in note 15(b).

d) Accounting standards

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1st January 2010.

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively in respect of business combinations for which the acquisition date falls within the first annual reporting period beginning on or after 1st July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Statement of Comprehensive Income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), 'Consolidated and separate financial statements', at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. There has been no impact of IAS 27 (revised) on the current period, as none of the non-controlling interests has a deficit balance. There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity; there have been no transactions with non-controlling interests.

The following standards, amendments and interpretations are effective for the first time in 2010 but are not relevant to the Group's operations:

IFRIC 17, 'Distributions of non-cash assets to owners'.

IFRIC 18, 'Transfers of assets from customers'.

Amendment to IFRS 1 'Additional exemptions for first-time adopters'.

IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement'.

IFRIC 16, 'Hedges of a net investment in a foreign operation'.

IAS 1 (amendment), 'Presentation of financial statements'.

IAS 36 (amendment), 'Impairment of assets'.

IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'.

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.

IAS 38 (amendment), 'Intangible assets'.

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1st January 2010 and have not been early adopted. The financial impact of the new standards, new interpretations and amendments to standards and interpretations are not expected to be material.

IFRS 9, 'Financial instruments', issued in November 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1st January 2013 but is available for early adoption. The Group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group has not recognised any gains in other comprehensive income. The Group has not yet decided when to adopt IFRS 9.

1 Basis of preparation and accounting policies continued

d) Accounting standards continued

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1st January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose the details of transactions with the Government and other government-related entities. The Group will apply the revised standard from 1st January 2011. When the revised standard is applied, the Group and the parent will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1st February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issue. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1st January 2011. It is not expected to have any impact on the Group or the parent financial statements.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1st July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1st January 2011, subject to endorsement by the EU. It is not expected to have any impact on the Group or the parent financial statements.

'Prepayments of a minimum funding requirement' (amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1st January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1st January 2011.

Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective 1st January 2010.

e) Basis of consolidation

The Consolidated financial statements of the Group include the financial statements of Development Securities PLC ('Company') and its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying the shareholding of more than half of the voting rights.

Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated financial statements.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are deconsolidated on the date that control ceases.

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The excess of consideration over the fair value of the assets and liabilities acquired is recorded as goodwill. If the consideration is less than the fair value of the assets and liabilities acquired, the difference is recognised directly in the Statement of Comprehensive Income.

f) Associates and joint ventures

An associated company is defined as an undertaking other than a subsidiary or joint venture over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. The Group's investments in associates included goodwill identified on acquisition, net of any accumulated impairment loss. The Group's investment in associates are accounted for in the Consolidated financial statements using the equity method.

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking over which the Group has significant influence and which is jointly controlled by two or more venturers under a contractual arrangement. The Group recognises its interest in a joint venture's assets and liabilities using the equity method.

Under the equity method, the interest in associates or joint ventures is carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Statement of Comprehensive Income reflects the Group's share of the associate's or joint venture's result after tax only after its share of the profits equals the share of losses not recognised.

The Group does not equity account for further losses from investments in associates or joint ventures where the investment, together with any long-term interest that, in substance, forms part of the net investment in the associate or joint venture, is held at nil value after provisions for impairment, unless the Group has incurred constructive or legal obligations or made payments on behalf of the associate or joint venture.

g) Intangible assets

i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

ii) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Revenue

Revenue, which excludes value-added tax, represents:

i) rental income, which is calculated on a straight-line basis. Any incentives for lessees to enter into lease agreements are spread evenly over the period to the earlier of lease expiry and any tenant option to break, where, at inception of the lease, the Directors do not consider it to be reasonably certain that the option will not be exercised. Lease incentives are usually in the form of rent-free periods or capital contributions. Assets held within both the investment and development and trading segments earn rental income. Lease surrenders from lessees are taken to comprehensive income when they are contractually agreed;
ii) trading income from operating properties comprises licence fee income, calculated on an accruals basis, and revenue from other services when provided. The income is classified within the operating segment;
iii) project management fee income is recognised over the term for which project management services are provided based on the value of work completed and is classified within the development and trading segment;
iv) development revenue and profits are recognised in accordance with IAS 11, 'Construction contracts' or IAS 18, 'Revenue' depending on whether all development risks, apart from the construction risk have passed to the purchaser under the terms of development agreement. Where only the construction risk remains the revenue and profit on the development is recognised under IAS 11, so as to match the proportion of development work completed on a percentage completion basis. Profits are only recognised where the outcome can be determined with reasonable certainty. Full provision is made for losses as soon as such losses are foreseen. Where revenue and profit is recognised under IAS 18, disposals are recognised where the risks and rewards of ownership are considered to have been transferred to the purchaser. Profits are recognised within the development and trading segment;
v) the sales proceeds of trading properties, undeveloped land and building units held as inventory and sold during the year, are recognised when the risks and rewards of ownership have been transferred to the purchaser and are classified within the development and trading segment;
vi) finance income is recognised by reference to the principal outstanding using the effective interest method; and
vii) dividend income from investments is recognised when the Group's right to receive income has been established.

i) Investment properties

i) Investment properties are those properties that are held either to earn rental income or for capital appreciation or both. Investment properties may be freehold or leasehold properties. For leasehold properties that are classified as investment properties, the associated leasehold obligations are accounted for as finance lease obligations if they qualify to be treated as such. Land which is held either for long-term capital appreciation rather than for short-term sale in the ordinary course of business is classified as an investment property.
ii) Investment properties are measured initially at cost including transaction costs and thereafter are stated at fair value, which reflects market conditions at the balance sheet date. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the year in which they arise.
iii) Completed investment properties are valued, at each reporting date, by independent valuers on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Fair value is assessed as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. A deduction is made to reflect purchaser's acquisition costs. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.
iv) Investment properties in the course of development are valued by the Directors, on the basis of the expected value of the property when complete, less deductions for the costs required to complete the project and appropriate adjustments for risk and finance costs. In preparing these valuations the Directors consult with agents and other advisors to derive appropriate assumptions specific to each asset.
v) Profits and losses on disposal of investment properties are calculated by reference to book value and recognised when the risks and rewards of ownership are considered to have passed to the purchaser. Gains and losses are recognised within 'Gains or losses on disposal of investment properties' in the Statement of Comprehensive Income.
vi) Investment properties held for sale are held at fair value and classified separately within current assets in the Balance Sheet.

1 Basis of preparation and accounting policies continued

j) Property, plant and equipment

i) Operating properties

Operating properties are those properties classified as owner-occupied and held for business purposes rather than for investment, generating revenue by way of licence fees and ancillary services. These properties are recognised initially at cost, which includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Thereafter the asset is carried at fair value less depreciation and impairment charged subsequent to the date of revaluation. A revaluation surplus is credited to Other comprehensive income and accumulated in equity under the heading of Property revaluation reserve, unless it reverses a revaluation decrease on the same asset previously recognised as an expense, where it is first credited to the Statement of Comprehensive Income to that extent.

The fair value is determined each year by independent, professional valuers on the basis of Existing Use Value. Surpluses and deficits in the period are included in the Property revaluation reserve within equity, except where carrying value is below depreciated cost, in which case surpluses and deficits are included in the Statement of Comprehensive Income. Depreciation is provided so as to write off the value of the properties, excluding land, over their expected useful lives, usually 25 years.

ii) Other plant and equipment

Other plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is provided so as to write off the cost less estimated residual value of the assets over their expected useful lives on a straight-line method. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Other gains and losses in the Statement of Comprehensive Income.

k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rents payable under operating leases are charged in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

The Group leases certain long leasehold properties. Leases of property where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

l) Inventory – development and trading properties

Trading properties and pre-development costs incurred on future development projects are carried as inventory and stated at the lower of cost and estimated net realisable value. Cost includes directly attributable expenditure and interest. No element of overhead is included in cost, since it is not practical to identify overhead amounts in respect of particular assets. Where the Directors consider that the costs are not recoverable from the proposed scheme, the project or site is written down to its net realisable value, with the write-down taken to the Statement of Comprehensive Income. Net realisable value is calculated as the estimated realisable value of the project or site, based upon our current plans, less all further costs to be incurred in making the sale.

m) Current and deferred income tax

Current tax is the expected tax payable on the taxable income for the year, based on the tax laws enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous years.

Deferred income tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unutilised tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

n) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual terms of the instrument.

i) Financial assets

The Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired.

Available-for-sale financial assets are those loan or equity instrument non-derivative financial assets that are designated as such or are not classified as loans and receivables, financial assets at fair value through profit or loss or held-to-maturity investments. After initial recognition, available-for-sale assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously represented in equity is included in the Statement of Comprehensive Income. Equity instrument financial assets are held at cost in the event that the fair value of the instruments is not reliably measurable.

Loans and other receivables with fixed or determinable payments, that are not quoted on an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale, are classified as 'loans and receivables'. Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the loans and receivables are derecognised or

impaired as well as through the amortisation process. The Group's loans and receivables are included within Trade and other receivables and Cash and cash equivalents in the Consolidated Balance Sheet.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Subsequent recoveries of amounts previously written off are credited against operating costs in the Statement of Comprehensive Income.

Amounts due from customers for contract work are included in trade and other receivables and represent revenue recognised in excess of payments on account received.

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with no significant risk of changes in value. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a financial liability. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents are stated net of outstanding bank overdrafts. Cash and cash equivalents include pledged cash held as security against financial liabilities.

Financial assets are assessed for impairment at each reporting date. Assets are impaired where there is evidence that as a result of events that occurred after initial recognition, the estimated future cash flows from the investments have been adversely affected.

ii) Financial liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual obligations and classified as financial liabilities at fair value through profit and loss or other financial liabilities measured at amortised cost.

Interest-bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation.

Other financial liabilities, including trade and other payables, are initially recognised at fair value and subsequently at amortised cost and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Amounts due to customers for contract work is included within trade and other payables and represents payments received in advance from customers.

iii) Derivatives

The Group enters into derivative financial instruments, including interest rate swaps, caps and collars and cross-currency swaps, to manage its exposure to interest rate and foreign exchange rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

iv) Hedging

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

Cash flow hedge – the effective portion of changes in the fair value of the hedging instrument is recognised in Other comprehensive income. The gain or loss relating to an ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts taken to equity are recycled to the Statement of Comprehensive Income in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

o) Borrowing costs

Gross borrowing costs relating to direct expenditure on investment properties and inventories under development are capitalised. The interest capitalised is calculated using the rate of interest on the loan to fund the expenditure, or the Group's weighted average cost of borrowings where appropriate, over the period from commencement of the development work until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Capitalised interest is written off to direct costs on disposal of inventory or to operating profit on disposal of investment properties.

Fees paid on establishment of loan facilities are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The accretion in the discount is recognised as an interest expense.

1 Basis of preparation and accounting policies continued

q) Pension schemes

The Group operates a defined contribution scheme. The charge to the Statement of Comprehensive Income in the year represents the actual amount payable to the scheme in the period. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

r) Foreign currencies

The Consolidated financial statements of the Group are presented in UK Sterling, the Group's functional and presentation currency.

Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the Statement of Comprehensive Income, with exchange differences on borrowings taken to finance income/costs, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

s) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

t) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new Ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

u) Share-based payments

The Group operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Group. The fair value of the employee services received in exchange for the grant of the option is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The Group has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in accruals.

v) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

w) Definitions

- Operating profit/(loss): stated after gain on disposal of investment properties and the revaluation of the Investment property portfolio and before the results of associates, jointly controlled entities and finance income and costs.
- IPD Index and Total Portfolio Return: total return from the completed investment property portfolio, comprising net rental income or expenditure and capital gains or losses from disposals and revaluation surpluses or deficits, divided by the average capital employed during the financial period, as defined and measured by Investment Property Databank Limited, a company that produces independent benchmarks of property returns.
- Total Shareholder Return: movement in share price over the year plus dividends paid as a percentage of the opening share price.
- Gearing: expressed as a percentage, is measured as net debt divided by total shareholders' funds.
- EPRA is the European Public Real Estate Association.
- EPRA earnings is the profit after taxation excluding investment property revaluations (including revaluations of joint venture investment properties), gains/(losses) on disposals of investment and trading properties, mark-to-market movements of derivative financial instruments (including those of joint ventures) and intangible asset movements and their related taxation.
- EPRA net assets (EPRA NAV) are the Balance Sheet net assets excluding the mark-to-market adjustment on effective cash flow hedges and related debt adjustments and deferred taxation on revaluations, and diluting for the effect of those shares potentially issuable under employee share schemes.
- EPRA NAV per share is EPRA NAV divided by the diluted number of shares at the period end.
- EPRA triple net assets is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

2 Segmental analysis

The segmental information presented, as required for IFRS 8, 'Operating Segments', consistently follows the information provided to the Chief Operating Decision-Maker (CODM) and reflects the three sectors in which the Group is operational. The CODM, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The three operating divisions are:

- Investment – management of the Group's investment property portfolio, generating rental income and valuation surpluses from property management;
- Development and trading – managing the Group's development projects. Revenue is received from project management fees, development profits and the disposal of inventory; and
- Operating – serviced office operations. Revenue is principally received from short-term licence fee income.

Unallocated assets and liabilities comprise amounts that cannot be specifically allocated to operating segments; an analysis is provided below.

These divisions are the basis on which the Group reports its primary segmental information. All operations occur and all assets are located in the United Kingdom, except assets of £642,000 (2009: £642,000), which are located in France and The Netherlands. All revenue arises from continuing operations.

	Year ended 31st December 2010			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	12,865	27,744	3,823	44,432
Direct costs	(3,682)	(22,258)	(5,118)	(31,058)
Segment result	9,183	5,486	(1,295)	13,374
Operating costs	(3,588)	(9,319)	—	(12,907)
Gain on disposal on investment properties	313	—	—	313
Gain on revaluation of investment property portfolio	8,769	—	—	8,769
Operating profit/(loss)	14,677	(3,833)	(1,295)	9,549
Other income	159	27	—	186
Share of post-tax profits/(losses) of joint ventures and associates	3,416	(502)	—	2,914
Unallocated loss on sale of other fixed assets				(32)
Profit before interest and income tax				12,617
Finance income	826	716	—	1,542
Finance costs	(8,528)	(2,982)	—	(11,510)
Profit before income tax				2,649
Income tax				(971)
Profit after income tax				1,678
Assets and liabilities				
Segment assets	249,335	223,432	7,181	479,948
Unallocated assets				65,203
Total assets				545,151
Segment liabilities	(128,239)	(71,466)	(3,094)	(202,799)
Unallocated liabilities				(9,245)
Total liabilities				(212,044)
A summary of unallocated assets and liabilities is shown on page 75.				
Other segment information				
Capital expenditure	34,124	155	543	34,822
Unallocated capital expenditure				781
Depreciation	—	4	482	486
Unallocated depreciation				215
Revenue				
Rental income	12,751	2,439	—	15,190
Operating property income	—	—	3,823	3,823
Project management fees	—	170	—	170
Trading property sales	—	4,923	—	4,923
Other trading property income	—	5,561	—	5,561
Construction contract revenue	—	6,564	—	6,564
Development proceeds	—	8,087	—	8,087
Other income	114	—	—	114
	12,865	27,744	3,823	44,432

In 2010, four transactions with a combined turnover, totalling £22,517,000, individually generated in excess of 10.0 per cent of total revenue and falls within the development and trading segment.

2 Segmental analysis continued

	Year ended 31st December 2009			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	10,080	21,390	3,600	35,070
Direct costs	(4,574)	(21,414)	(4,895)	(30,883)
Segment result	5,506	(24)	(1,295)	4,187
Operating costs	(5,089)	(7,755)	—	(12,844)
Gain on revaluation of investment property portfolio	3,681	—	—	3,681
Operating profit/(loss)	4,098	(7,779)	(1,295)	(4,976)
Other income	41	—	—	41
Share of post-tax losses of joint ventures and associates	—	(10)	—	(10)
Provision for impairment of joint ventures	—	(422)	—	(422)
Income from financial assets	—	503	—	503
Unallocated loss on sale of other fixed assets				(14)
Profit on sale of investments	—	221	—	221
Loss before interest and income tax				(4,657)
Finance income	1,745	320	—	2,065
Finance costs	(6,881)	(1,914)	—	(8,795)
Loss before income tax				(11,387)
Income tax				693
Loss after income tax				(10,694)
Assets and liabilities				
Segment assets	217,454	148,613	7,099	373,166
Unallocated assets				38,488
Total assets				411,654
Segment liabilities	(103,727)	(48,321)	(2,561)	(154,609)
Unallocated liabilities				(13,026)
Total liabilities				(167,635)
Other segment information				
Capital expenditure	43,307	—	1,167	44,474
Unallocated capital expenditure				116
Depreciation	—	—	396	396
Unallocated depreciation				145
Revenue				
Rental income	9,948	27	—	9,975
Operating property income	—	—	3,600	3,600
Project management fees	—	974	—	974
Construction contract revenue	—	20,389	—	20,389
Other income	132	—	—	132
	10,080	21,390	3,600	35,070

In 2009, one transaction of £20,389,000 generated in excess of 10.0 per cent of total revenue and falls within the development and trading segment.

	2010 £'000	2009 £'000
Unallocated assets can be analysed as follows:		
Other plant and equipment	**964**	626
Deferred income tax asset	**5,507**	3,912
Derivative financial instruments	**3,308**	7,473
Trade and other receivables	**5,250**	2,626
Cash and cash equivalents	**50,174**	23,851
	65,203	38,488
Unallocated liabilities can be analysed as follows:		
Current borrowings	**(17)**	(17)
Trade and other payables	**(3,721)**	(9,097)
Deferred income tax liability	**(5,507)**	(3,912)
	(9,245)	(13,026)

3 Construction contract revenue

Revenue related to construction contracts amounted to £6,564,000 (2009: £20,389,000) and is included within development and trading segment revenue (refer note 2) and represented 14.8 per cent (2009: 58.1 per cent) of Group revenues.

The corresponding amount shown in Trade and other receivables in the Balance Sheet represents the aggregate amount of costs incurred plus recognised profits, less recognised losses, less progress billings.

	2010 £'000	2009 £'000
Construction contract: assets	**3,109**	—
Construction contract: liabilities	**—**	—
Construction contract: net assets	**3,109**	—
This amount corresponds to:		
Aggregate costs incurred	**5,744**	41,146
Recognised profits	**820**	3,456
	6,564	44,602
Progress billings	**(3,455)**	(44,602)
Construction contract net assets	**3,109**	—

4 Operating profit

	2010 £'000	2009 £'000
The profit/(loss) from operations is stated after charging:		
Share-based payments expense	**19**	68
Cost of sales of development and trading properties recognised in direct costs	**21,397**	17,711
Write-down of development and trading properties to net realisable value	**—**	2,366
Depreciation – Operating property	**80**	68
– Other plant and equipment	**621**	473
Impairment of trade receivables recognised in direct costs	**51**	118
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of Company and Group financial statements	**240**	240
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**160**	160
	400	400
Fees payable to the Group's auditors and its associates for other services		
Assurance services relating to Placing and Rights Issue	**357**	—
Assurance services relating to Firm Placing and Placing and Open Offer	**—**	380
Tax services	**186**	430
All other services	**151**	410
	1,094	1,620

5 Staff costs

	2010 £'000	2009 £'000
Wages and salaries	**6,051**	5,558
Social security	**823**	642
Cost of employee share option schemes	**19**	68
Other pension costs	**613**	538
	7,506	6,806

Average monthly number of employees, including Directors, during the year:

	2010 Number	2009 Number
Property development and investment	**48**	36
Operating property activities	**33**	30
	81	66

The Directors are considered to be the only key management personnel. Their remuneration is shown in the Remuneration Report on pages 52 to 59.

6 Finance income and costs

a) Finance income	2010 £'000	2009 £'000
Interest receivable	**1,389**	1,022
Other finance income	**147**	146
Fair value gain on financial instruments – interest rate caps and collars	**6**	897
Total finance income	**1,542**	2,065

b) Finance costs	2010 £'000	2009 £'000
Interest on bank loans and other borrowings	**8,740**	6,875
Interest on debenture	**2,200**	2,200
Amortisation of transaction costs	**377**	542
Net foreign currency differences arising on retranslation of cash and cash equivalents	**193**	574
	11,510	10,191
Capitalised interest on development and trading properties	**—**	(1,396)
Net finance cost	**11,510**	8,795

In 2009, interest was capitalised at an average rate of 5.25 per cent. Capitalised interest of £nil (2009: £2,084,000) was written off in the year against gross profit as a result of property disposals. The tax treatment of capitalised interest follows the accounting treatment.

7 Taxation

	2010 £'000	2009 £'000
Current tax	—	—
Adjustment in respect of prior years	210	90
Total current tax charge	210	90
Deferred tax charge/(credit)	761	(783)
Total charge/(credit) in the Statement of Comprehensive Income	971	(693)

	2010 £'000	2009 £'000
Tax on items (credited)/charged to equity:		
Deferred tax (credit)/charge on other revaluations	(761)	783
Total (credit)/charge in the Statement of Comprehensive Income	(761)	783

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2010 £'000	2009 £'000
Profit/(loss) before taxation	2,649	(11,387)
Tax on profit/(loss) on ordinary activities at 28.0% (2009: 28.0%)	742	(3,188)
Amounts not deductible for tax purposes	248	442
Notional gains recognised on property transactions in the year	2,178	—
Adjustment in respect of prior years	210	90
Movement on property revaluation	(1,535)	(614)
Brought forward losses utilised/deferred tax credit not recognised	(872)	2,577
Total tax charge/(credit) reported in the Statement of Comprehensive Income	971	(693)

Deferred tax is calculated in full on the temporary differences under the liability method using the tax rate of 27.0 per cent.

8 Dividends

	2010 £'000	2009 £'000
Declared and paid during the year:		
Equity dividends on Ordinary shares:		
Final dividend for 2009: 2.40 pence per share (2008: 2.40 pence per share)	1,974	974
Interim dividend for 2010: 2.40 pence per share (2009: 2.40 pence per share)	1,974	974
	3,948	1,948
Proposed for approval by shareholders at the Annual General Meeting:		
Final dividend for 2010: 2.40 pence per share (2009: 2.40 pence per share)	2,936	1,974

Subject to approval by shareholders, the final dividend was approved by the Board on 23rd February 2011 and has not been included as a liability or deducted from retained profits as at 31st December 2010. The final dividend is payable on 6th July 2011 to ordinary shareholders on the register at the close of business on 3rd June 2011 and will be recognised in 2011.

On 28th July 2010, 4,110,000 new Ordinary shares of 50 pence each were allotted following a Placing and on 11th August 2010, 35,986,030 new Ordinary shares of 50 pence each were allotted following a Rights Issue. The new shares rank pari passu in all respects with existing shares, including the right to receive dividends and other distributions after issue, save for the interim dividend in respect of the six months ended 30th June 2010.

On 15th July 2009, 41,653,260 new Ordinary shares of 50 pence each were allotted following a Firm Placing and Placing and Open Offer. The new shares rank pari passu in all respects with existing shares, including the right to receive dividends and other distributions after issue, save for the interim dividend in respect of the six months ended 30th June 2009.

9 Earnings/(loss) per share and net assets per share

Basic earnings/(loss) per share amounts are calculated by dividing profit/(loss) for the year attributable to equity shareholders of the parent by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the profit/(loss) attributable to equity shareholders of the parent by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Management has chosen to disclose the European Public Real Estate (EPRA) adjusted net assets per share and earnings per share from continuing activities in order to provide an indication of the Group's underlying business performance and to assist comparison between European property companies.

EPRA earnings/(loss) is the profit/(loss) after taxation excluding investment property revaluations and mark-to-market adjustments on interest rate swaps.

EPRA net assets are the Balance Sheet net assets excluding mark-to-market adjustments on financial instruments used for hedging purposes and deferred taxation on revaluations and is calculated on a fully diluted basis.

The calculation of basic and diluted earnings/(loss) per share and EPRA earnings/(loss) per share is based on the following data:

	2010 £'000	2009 £'000
Profit/(loss)		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	**1,678**	(10,694)
Revaluation surplus (including share of joint venture revaluation surplus)	**(12,063)**	(3,681)
Gain on disposal of investment properties	**(313)**	—
Gain on disposal of trading properties	**(1,133)**	—
Impairment of development land	**—**	2,366
Mark-to-market adjustment on interest rate swaps (including share of joint venture mark-to-market adjustment)	**151**	(897)
EPRA adjusted loss from continuing activities attributable to owners of the Company	**(11,680)**	(12,906)

	2010 '000	2009 '000
Number of shares		
Weighted average number of Ordinary shares for the purposes of earnings/(loss) per share	**98,970**	63,481
Effect of dilutive potential Ordinary shares:		
Share options	**1**	6
Weighted average number of Ordinary shares for the purpose of diluted earnings/(loss) per share	**98,971**	63,487
Basic earnings/(loss) per share (pence)	**1.7p**	(16.8)p
Diluted earnings/(loss) per share (pence)	**1.7p**	(16.8)p
EPRA adjusted loss per share (pence)	**(11.8)p**	(20.3)p
EPRA adjusted diluted loss per share (pence)	**(11.8)p**	(20.3)p

On 28th July 2010, 4,110,000 new Ordinary shares of 50 pence each were allotted following a Placing and on 11th August 2010, 35,986,030 new Ordinary shares of 50 pence each were allotted following a Rights Issue. The weighted average number of Ordinary shares for 2009 has been adjusted accordingly.

Basic net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the year-end.

Diluted net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the year-end plus the number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Net assets per share and diluted net assets per share have been calculated as follows:

	Net assets £'000	**No. of shares '000**	**2010 Net assets per share pence**	Net assets £'000	No. of shares '000	2009 Net assets per share pence
Basic net assets per share	**333,107**	**122,352**	**272**	244,019	82,256	297
Cumulative mark-to-market adjustment on interest rate swaps	**4,303**			3,487		
EPRA adjusted net assets per share	**337,410**	**122,352**	**276**	247,506	82,256	301
Cumulative mark-to-market adjustment on interest rate swaps	**(4,303)**			(3,487)		
Fair value of debt	**7,455**			8,807		
EPRA adjusted triple net assets per share	**340,562**	**122,352**	**278**	252,826	82,256	307
Effect of dilutive potential Ordinary shares	**1,518**	**448**	**—**	1,350	418	—
Diluted net assets per share	**334,625**	**122,800**	**272**	245,369	82,674	297
EPRA diluted net assets per share	**338,928**	**122,800**	**276**	248,856	82,674	301
EPRA diluted triple net assets per share	**342,080**	**122,800**	**278**	254,176	82,674	307

10 Property, plant and equipment

a) Operating properties	Long leasehold £'000
At valuation 1st January 2009	2,372
Deficit on revaluation	(352)
At valuation 31st December 2009	2,020
Deficit on revaluation	(310)
At valuation 31st December 2010	1,710
Accumulated depreciation:	
At 1st January 2009	372
Charge for the year	68
At 31st December 2009	440
Charge for the year	80
At 31st December 2010	520
Net book amount 31st December 2010	1,190
Net book amount 31st December 2009	1,580
Net book amount 1st January 2009	2,000
Original cost of operating properties at 31st December 2010	1,583
Original cost of operating properties at 31st December 2009	1,583

Operating properties are charged as security against the Group's borrowings.

Depreciation expense of £80,000 (2009: £68,000) is included within operating costs.

The deficit on revaluation for the year ended 31st December 2010 of £310,000 (2009: £352,000 deficit) on long leasehold properties is debited to the Property revaluation reserve. If the Operating properties were measured using the cost model, the carrying value would be £1,063,000 (2009: £1,143,000).

The Group's Operating property has been valued at market value as at 31st December 2010 by independent professional valuers DTZ Debenham Tie Leung, Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors and without any special assumptions. The values disclosed above are as stated by the valuer in its valuation report to the Directors. The valuer has consented to the use of its name in the financial statements.

b) Other plant and equipment	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:			
At 1st January 2009	6,346	413	6,759
Additions	1,217	66	1,283
Disposals	(46)	(100)	(146)
At 31st December 2009	7,517	379	7,896
Additions	1,410	69	1,479
Disposals	(553)	(45)	(598)
At 31st December 2010	8,374	403	8,777
Accumulated depreciation:			
At 1st January 2009	3,126	170	3,296
Charge for the year	396	77	473
Disposals	(20)	(65)	(85)
At 31st December 2009	3,502	182	3,684
Charge for the year	541	80	621
Disposals	(331)	(35)	(366)
At 31st December 2010	3,712	227	3,939
Net book amount 31st December 2010	4,662	176	4,838
Net book amount 31st December 2009	4,015	197	4,212
Net book amount 1st January 2009	3,220	243	3,463

Depreciation expense of £621,000 (2009: £473,000) is included within operating costs.

10 Property, plant and equipment continued

c) Investment properties	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st January 2009	131,980	2,104	134,084
Additions:			
– acquisitions	41,728	—	41,728
– capital expenditure	1,579	—	1,579
Disposals	(36)	—	(36)
Surplus on revaluation	3,510	171	3,681
At valuation 31st December 2009	178,761	2,275	181,036
Additions:			
– acquisitions	30,027	—	30,027
– capital expenditure	4,097	—	4,097
Disposals	(24,187)	(505)	(24,692)
Surplus/(deficit) on revaluation	9,084	(315)	8,769
At valuation 31st December 2010	197,782	1,455	199,237

Direct costs of £3,682,000 (2009: £4,574,000) arose as a result of ownership of investment properties.

d) Reconciliation of market value of investment properties to the net book amount

The following table reconciles the market value of investment properties to their net book amount. The components of the reconciliation are included within their relevant balance sheet heading.

	2010 £'000	2009 £'000
Market value at 31st December assessed by the independent valuers or Directors	**202,118**	183,677
Amount included in prepayments and accrued income in respect of lease incentives	**(2,881)**	(2,641)
Net book amount of Investment property at 31st December	**199,237**	181,036

The Group's Investment properties have been valued at 31st December 2010 and 2009 by independent valuers and by the Directors on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Completed Investment properties have been valued by DTZ Debenham Tie Leung, Chartered Surveyors, Savills Commercial Limited, Chartered Surveyors or Ryden LLP, Commercial Property Consultants at a value of £168,399,000 (2009: £153,938,000).

Land held as investment property has been valued by Colliers CRE, Chartered Surveyors at £12,400,000 (2009: £10,000,000).

Also included within Investment properties are freehold land and buildings representing investment properties under development, amounting to £18,438,000 (2009: £17,098,000), which have been valued by the Directors. These properties comprise buildings and landholdings for current or future development as investment properties. This approach has been taken because the value of these properties is dependent on a detailed knowledge of the planning status, the competitive position of these assets and a range of complex project development appraisals.

Investment properties under development include £7,104,000 (2009: £8,682,000) of landholdings adjacent to retail properties within the Group's portfolio, acquired for the purpose of extending the existing shopping centres. The fair value of these properties rests in the planned extensions, and is difficult to estimate pending confirmation of designs and planning permission, and hence has been estimated by the Directors at cost as an approximation to fair value.

£145,425,000 (2009: £121,825,000) of Investment properties are charged as security against the Group's borrowings.

11 Intangible assets

Goodwill	£'000
At 1st January 2010	—
Additions	1,268
At 31st December 2010	1,268

On 29th March 2010, the Group acquired 100.0 per cent of the issued shares in Henry Davidson Developments Limited (HDD), a property development company specialising in neighbourhood retail schemes (see note 20).

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment. The recoverable amount of all CGUs has been determined based on value-in-use calculations. The calculations use pre-tax cash flow projections based on financial budgets approved by management covering a period up to the completion of each project (or less than five years). The pre-tax discount rate used was 8.0 per cent. Goodwill of £1,268,000 arose as a result of HDD's expected future profits from two specific developments acquired. The carrying amount of the goodwill has been tested for impairment at the reporting date. No provision for impairment was considered necessary.

12 Investments

	Investments in associates £'000	Investments in joint ventures £'000
At 1st January 2009	—	610
Additions	1,500	43
Transfer to subsidiary	—	(231)
Impairment provision of joint venture	—	(422)
At 31st December 2009	1,500	—
Additions	444	9,718
At 31st December 2010	1,944	9,718

A summary of the Group's projects in partnership and the balance sheet classification of its interests is set out in note 26.

a) Investment in associates

During 2010, the Group acquired 40.0 per cent of the Ordinary shares of Atlantic Park (Bideford) Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land, for £444,000.

During 2009, the Group acquired 25.0 per cent of the Ordinary shares of Barwood Land and Estates Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land, for £1,500,000.

The Group holds a 29.0 per cent interest in Continental Estates Corporation BV, a company incorporated and registered in The Netherlands, whose principal activity is the holding of investments. The equity investment of £256,000 has been provided against in full in previous years.

The Group holds 25.0 per cent of the Ordinary shares of CTP Securities Limited, a company incorporated and registered in the United Kingdom, whose principal activity is property development. The rights granted under the shareholder agreement for this company reflect the status of this investment as an associate. As at 31st December 2009 and 2010, the investment in Ordinary shares has been fully provided against.

Wessex Property Fund is a Jersey property unit trust that was established on 5th April 2006. Its principal activity is to invest in property situated in the south-west of England. As at 31st December 2009 and 2010 the Group held 47.0 per cent of the units in issue. The investment has been fully provided against.

Any contingent liabilities in relation to our associate investment partners are disclosed in note 23.

All investments in associates are included within the development and trading segment.

12 Investments continued

a) Investment in associates continued

The Group's share of assets and liabilities in its associates is set out below:

	Atlantic Park (Bideford) Limited £'000	Barwood Land and Estates Limited £'000	Continental Estates Corp. BV £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	2010 Total £'000
Summarised balance sheets:						
Non-current assets	—	139	329	1,205	7,261	8,934
Current assets	180	93	11	2,964	366	3,614
Share of gross assets	180	232	340	4,169	7,627	12,548
Current liabilities	—	(21)	(93)	(547)	(254)	(915)
Non-current liabilities	—	—	(757)	(5,041)	(9,424)	(15,222)
Share of gross liabilities	—	(21)	(850)	(5,588)	(9,678)	(16,137)
Share of net assets/(liabilities)	180	211	(510)	(1,419)	(2,051)	(3,589)
Share of net liabilities not recognised	—	—	510	1,419	2,051	3,980
Goodwill	264	1,289	—	—	—	1,553
Group's share of net assets	444	1,500	—	—	—	1,944
Summarised income statements:						
Share of revenue	—	213	160	3,833	609	4,815
Share of post-tax profits of associates	—	—	73	41	183	297
Share of profits not recognised	—	—	(73)	(41)	(183)	(297)
Share of losses recognised	—	—	—	—	—	—

	Barwood Land and Estates Limited £'000	Continental Estates Corp. BV £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	2009 Total £'000
Summarised balance sheets:					
Non-current assets	120	168	769	7,261	8,318
Current assets	110	42	2,535	283	2,970
Share of gross assets	230	210	3,304	7,544	11,288
Current liabilities	(19)	(36)	(857)	(272)	(1,184)
Non-current liabilities	—	(757)	(3,234)	(9,497)	(13,488)
Share of gross liabilities	(19)	(793)	(4,091)	(9,769)	(14,672)
Share of net assets/(liabilities)	211	(583)	(787)	(2,225)	(3,384)
Share of net liabilities not recognised	—	583	787	2,225	3,595
Goodwill	1,289	—	—	—	1,289
Group's share of net assets	1,500	—	—	—	1,500
Summarised income statements:					
Share of revenue	—	158	181	617	956
Share of post-tax profits/(losses) of associates	—	104	(412)	(80)	(388)
Share of (profits)/losses not recognised	—	(104)	412	80	388
Share of losses recognised	—	—	—	—	—

b) Investment in joint ventures

The Group has the following interests in joint ventures:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Joint venture partner
Manchester Arena Complex LP	30	United Kingdom	Investment property	Investment	Patron Capital Partners
Curzon Park Limited	50	United Kingdom	Property development	Development and trading	Grainger PLC
Wimbledon Phoenix Limited	50	United Kingdom	Property development	Development and trading	Foinavon Limited (in administration)

During the year the Group acquired a 30.0 per cent holding in Manchester Arena Complex Limited Partnership (MAC) with its partner, Patron Capital Partners, holding 70.0 per cent of the equity. The company is registered and incorporated in the United Kingdom. The Group's 30.0 per cent holding has been recognised at its share of net assets as at 31st December 2010. MAC is accounted for as a joint venture as both partners jointly control the management of the asset.

During the year the Group provided a further £5,000,000 funding to our Curzon Park Limited joint venture, to enable a partial repayment of the bank loan held within the entity. Our joint venture partner also made a similar contribution. These partial repayments reduced the bank's loan to the joint venture entity to £15,610,000. In turn, the bank extended the loan for a new five-year term, with loan-to-value testing suspended for three years.

The joint venture acquired the 10.5-acre Curzon Street site in Birmingham in November 2006. In March 2010, the Government published a paper outlining the proposed High Speed Rail Link between London and Birmingham (HS2), which indicates that the planned route passes through the site. The Group, together with its joint venture partner, has put on hold plans for development while it awaits the Government's proposals for taking the project forward. The proposed route may restrict development by approximately two-thirds of its original potential. Due to the uncertainty surrounding the project, the Group has provided for its share of net assets.

During 2009, the Group's joint venture partners withdrew from Hammersmith Central Unit Trust resulting in a profit of £221,000. Hammersmith Central Unit Trust is now accounted for as a subsidiary undertaking.

The Group's joint venture partner in Wimbledon Phoenix Limited, Foinavon Limited, went into administration on 26th August 2009 at which time the Directors considered the investment in joint venture to be impaired and made a full provision. On 14th February 2011, the Group acquired the 50.0 per cent share capital previously held by Foinavon Limited. The Group has provided for its share of net assets due to the uncertainty surrounding the project.

Any contingent liabilities in relation to our joint venture partners are disclosed in note 23.

The Group's share of the assets, liabilities, income and expenses of its joint ventures, which includes amounts receivable from those joint ventures, is as follows:

				2010
	Manchester Arena Complex LP £'000	Curzon Park Limited £'000	Wimbledon Phoenix Limited £'000	Total £'000
Summarised income statements:				
Revenue	925	98	—	1,023
Administrative expenses	(165)	(246)	(5)	(416)
Finance income	6	—	—	6
Finance costs	(533)	(349)	—	(882)
Gain on revaluation	3,294	—	—	3,294
Share of profit/(loss) before taxation	3,527	(497)	(5)	3,025
Taxation	(111)	—	—	(111)
Share of profit/(loss) after taxation	3,416	(497)	(5)	2,914
Share of profit/(loss) recognised	3,416	(497)	(5)	2,914
Summarised balance sheets:				
Non-current assets	22,347	18,852	462	41,661
Current assets	2,614	157	3	2,774
Current liabilities	(927)	(62)	(43)	(1,032)
Non-current liabilities	(14,316)	(12,805)	—	(27,121)
Share of net assets	9,718	6,142	422	16,282
Share of net assets not recognised	—	(6,142)	(422)	(6,564)
Share of net assets recognised	9,718	—	—	9,718

12 Investments continued

b) Investment in joint ventures continued

			2009
	Curzon Park Limited £'000	Wimbledon Phoenix Limited £'000	Total £'000
Summarised income statements:			
Revenue	57	—	57
Administrative expenses	(101)	(10)	(111)
Finance income	3	—	3
Finance costs	(404)	—	(404)
Share of loss before and after taxation	(445)	(10)	(455)
Share of loss not recognised	445	—	445
Share of loss recognised	—	(10)	(10)
Summarised balance sheets:			
Non-current assets	18,801	462	19,263
Current assets	72	3	75
Current liabilities	(66)	(43)	(109)
Non-current liabilities	(12,805)	—	(12,805)
Share of net assets	6,002	422	6,424
Share of net assets not recognised	(6,002)	—	(6,002)
Provision for impairment of joint venture	—	(422)	(422)
Share of net assets recognised	—	—	—

c) Principal subsidiaries

The Group has taken advantage of the exemption under s410 of the Companies Act 2006 and presents below only those undertakings with net assets in excess of 5.0 per cent of Group net assets.

The following were principal subsidiaries at 31st December 2010:

	% holding in Ordinary shares at 31st December 2010	Country of incorporation	Principal activity
Development Securities Estates PLC	100	United Kingdom	Management and Investment Company
Development Securities (Investments) PLC	100	United Kingdom	Property Investment
DS Jersey (No. 1) Limited	100	Jersey	Investment
Kirkby Centre (No. 2) Limited*	100	United Kingdom	Investment

*Indirectly held.

A full list of subsidiaries is available on request.

13 Inventory – development and trading properties

Inventory	Development properties £'000	Trading properties £'000	Total £'000
At 1st January 2009	17,347	42,018	59,365
Additions:			
– acquisitions	19,550	2,838	22,388
Disposals	(746)	(86)	(832)
Write-down of development and trading properties to net realisable value	(818)	(1,548)	(2,366)
At 31st December 2009	35,333	43,222	78,555
Additions:			
– acquisitions	34,430	37,168	71,598
– acquired through business combination	18,114	—	18,114
– development expenditure	3,180	—	3,180
Disposals	(11,386)	(2,378)	(13,764)
Transfer from trading to development properties	4,507	(4,507)	—
At 31st December 2010	84,178	73,505	157,683

Included in the above amounts are projects stated at net realisable value, being development and trading properties of £42,947,000 (2009: £38,552,000).

Net realisable value has been estimated by the Directors, taking account of our plans for each project, the planning status and competitive position of each asset, and the anticipated market for the scheme. For material developments the Directors have consulted with third-party chartered surveyors in setting their market assumptions. The write down of £2,366,000 in 2009 was in respect of the reduced market value estimates of certain development and trading properties.

Capitalised interest on development and trading properties to date is £615,000 (2009: £615,000).

No interest was capitalised on development and trading properties during the year.

14 Trade and other receivables

a) Non-current	2010 £'000	2009 £'000
Prepayments and accrued income	**2,861**	2,354

b) Current	2010 £'000	2009 £'000
Trade receivables	**10,750**	3,718
Amounts due from customers for contract work	**3,109**	—
Other receivables	**4,756**	15,791
Other taxation recoverable	**3,372**	260
Prepayments and accrued income	**3,793**	3,247
	25,780	23,016

The Group has provided £72,000 (2009: £104,000) for outstanding balances where recovery is considered doubtful. Apart from the receivables that have been provided for, there are no other material receivables, passed due but not impaired, at the year end and relate to customers with no recent history of default. Transactions and balances with related parties are disclosed in note 25.

15 Trade and other payables

a) Current	2010 £'000	2009 £'000
Trade payables	**1,027**	244
Other payables	**6,387**	9,600
Current income tax	**660**	131
Other tax and social security	**1,625**	6,867
Accruals and deferred income	**15,288**	11,431
	24,987	28,273

b) Non-current – provisions	2010 £'000	2009 £'000
At 1st January	**7,122**	5,982
Utilised during the year	**(1,801)**	(1,843)
Charged to the Statement of Comprehensive Income in the year	**730**	2,983
At 31st December	**6,051**	7,122

Provisions of £775,000 (2009: £1,114,000) relate to properties and £5,276,000 (2009: £6,008,000) to onerous leases.

The property provisions arose from residual liabilities on completed development projects where the Group was responsible for certain development costs in prior years. The provisions include estimated costs, the timing and amount of which are currently uncertain.

The onerous lease provision has arisen from four lease obligations entered into by the Group. A provision of £3,624,000 (2009: £3,100,000) has been made in respect of a lease to Stead & Simpson Limited of which Development Securities PLC is a guarantor. Stead & Simpson Limited was placed into administration on 28th January 2008. The lease was surrendered on 21st January 2011 and the provision represents the final liability due as guarantor. Two provisions of £590,000 (2009: £1,250,000) and £52,000 (2009: £358,000) relate to onerous lease obligations entered into in 1989 and 1975 respectively.

The final provision is in respect of the Group's lease entered into on 19th December 2008 for office premises at One Kingdom Street, PaddingtonCentral. On 23rd December 2009, a lease was signed to sublet the office at PaddingtonCentral to MWB Business Exchange Plc, thereby facilitating a letting of the entire floor to this serviced office operator. The provision of £1,010,000 (2009: £1,300,000) relates to the shortfall in rent over the 15-year lease term.

16 Financial assets and financial liabilities

The following table is a summary of the financial assets and financial liabilities included in the Consolidated Balance Sheet:

	2010 £'000	2009 £'000
Non-current assets		
Derivative financial instruments used for hedging at fair value	**3,308**	7,473
Loan notes at amortised cost less impairment	**8,514**	8,514
Available-for-sale financial assets	**18,726**	8,330
	30,548	24,317
Current assets		
Available-for-sale financial assets	**—**	9,881
Loans and receivables	**467**	717
Trade and other receivables at amortised cost less impairment	**18,615**	20,040
Cash and cash equivalents	**104,110**	80,574
	123,192	111,212
Total financial assets	**153,740**	135,529
Current liabilities		
Trade and other payables at amortised cost	**19,778**	23,736
Borrowings at amortised cost	**523**	12,669
	20,301	36,405
Non-current liabilities		
Borrowings at amortised cost	**174,976**	113,533
Provisions	**6,051**	7,122
Derivative financial instruments not used for hedging at fair value through the Statement of Comprehensive Income	**—**	2,126
	181,027	122,781
Total financial liabilities	**201,328**	159,186

a) Other financial assets

Non-current	2010 £'000	2009 £'000
Available-for-sale financial assets	**18,726**	8,330
Loan notes at amortised cost	**8,514**	8,514
	27,240	16,844

Available-for-sale financial assets comprise:	2010 £'000	2009 £'000
Development participation	**5,000**	5,000
Development loans to joint ventures	**13,726**	3,330
	18,726	8,330

Development participation represents the Group's risk capital invested alongside our partners in one of our development schemes. The fair value of the participation is assessed by reference to the stage of completion of the project and progress on construction and lettings. The second phase of PaddingtonCentral was completed in 2008, and the participation was returned to the Group together with the related interest and profit share. In accordance with the agreement with our funding partner, the Group immediately reinvested £5,000,000 in the next phase, Two Kingdom Street.

Development loans to joint ventures include a number of working capital and project-specific loans of £5,703,000 (2009: £3,330,000) to CTP Securities Limited. The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. Included in the above amount is an interest-free loan of £208,000.

Following the renegotiation of the Curzon Park Limited loan facility, the Group provided a £5,000,000 loan to the joint venture in order to repay a share of its bank debt. The joint venture partner provided a similar loan.

During 2010, the Group entered into three further funding agreements totalling £3,023,000, in respect of projects in partnership. The loans attract fixed coupon rates of between 3.0 and 8.5 per cent.

Loan notes with a carrying value of £89,000 (2009: £89,000) are held in Continental Estates Corporation BV, an associate. Interest is earned at a fixed rate of 6.0 per cent. Loan notes with a carrying value of £8,425,000 were issued in November 2007 by CTP Securities Limited, with a term of five years and a fixed coupon rate of 4.25 per cent.

Current	£'000	2010 £'000	£'000	2009 £'000
Available-for-sale financial assets:				
Development participation		—		9,881
Loans and receivables:				
CTP Securities Limited	200		200	
Fiducia Group Limited	—		250	
Other	267		267	
		467		717
		467		10,598

As at 31st December 2009, £9,881,000 funds had been advanced for development funding to the Henry Davidson Developments (HDD) companies and an additional £250,000 was advanced to Fiducia Group, the former parent of HDD, by way of a loan earning a fixed coupon rate of 5.0 per cent. During 2009 the Group received £503,000 in respect of HDD's profit share arrangements.

On 29th March 2010, the Group acquired 100.0 per cent of the shares in HDD. As at 31st December 2010, the assets and liabilities of the HDD entities acquired have been fully consolidated within the Group financial statements.

The Group provided two loans totalling £267,000 (2009: £267,000) to third parties by way of development funding. These are carried at cost.

In 2009, the Group provided a short-term, non-interest-bearing facility of £200,000 to CTP Securities Limited.

b) Borrowings

Current	£'000	2010 £'000	£'000	2009 £'000
Bank overdrafts		831		10
Current instalments due on bank loans	17		12,987	
Unamortised transaction costs	(325)		(328)	
		(308)		12,659
		523		12,669

Non-current	2010 £'000	2009 £'000
First mortgage debenture 11% due 2016	20,000	20,000
Bank loans and loan notes	157,037	94,902
Unamortised transaction costs	(2,061)	(1,369)
	174,976	113,533

Bank loans and the debenture are secured by way of mortgages and legal charges on certain properties and cash deposits held by the Group.

Non-current borrowings:	2010 £'000	2009 £'000
£20,000,000 first mortgage debenture 2016	20,000	20,000
£13,000,000 variable rate loan 2010	—	12,970
£25,000,000 variable rate loan 2011	—	2,000
£6,565,000 variable rate loan 2012	6,565	—
£38,000,000 variable rate loan 2013	31,113	32,300
£15,296,000 variable rate loan 2013	15,296	—
£12,955,000 variable rate loan 2013	—	12,955
£5,997,000 variable rate loan 2014	—	5,997
£6,200,000 variable rate loan 2015	6,200	—
£57,565,000 fixed rate loan 2025	57,565	—
€47,000,000 variable rate loan notes 2027	40,298	41,650
£16,500 variable rate loan notes 1999	17	17
	177,054	127,889
Less: current instalments due on bank loans	(17)	(12,987)
	177,037	114,902

16 Financial assets and financial liabilities continued

b) Borrowings continued

£20,000,000 first mortgage fixed rate debenture
This secured debenture is repayable in one instalment on 6th January 2016.

£13,000,000 variable rate loan
This secured loan was repayable in one instalment on 2nd June 2010. The loan was repaid in full on 15th March 2010.

£25,000,000 variable rate loan
This secured loan is repayable in one instalment on 31st March 2011. The loan was repaid in full on 15th March 2010 and the facility cancelled.

£6,565,000 variable rate loan
This secured loan is repayable in one instalment on 25th June 2012.

£38,000,000 variable rate loan
This secured loan is repayable in one instalment on 31st January 2013. Amounts of £3,500,000 and £2,200,000 were repaid on 1st May and 13th November 2009 respectively. A further £1,187,000 was repaid on 3rd February 2010. The current balance outstanding on the facility is £31,113,000.

£15,296,000 variable rate loan
This secured loan is repayable in one instalment on 28th October 2013.

£12,955,000 variable rate loan
This secured loan was repayable in one instalment on 31st May 2013. The loan was repaid in full on 31st August 2010 and the facility cancelled.

£5,997,000 variable rate loan
This secured loan was repayable in one instalment on 17th October 2014. The loan was repaid in full on 12th July 2010 and the facility cancelled.

£6,200,000 variable rate loan
This secured loan is repayable in one instalment on 11th July 2015.

£57,565,000 fixed rate loan
£25,665,000 loan capital amortises over the term of the loan. The remaining £31,900,000 is repayable in one instalment on 12th March 2025.

€47,000,000 variable rate loan notes
These unsecured loan notes were issued on 20th September 2007 and are denominated in Euros. They are repayable on 25th October 2027.

£16,500 loan notes
These unsecured loan notes were repayable in 1999. The balance of £16,500 represents the residual amount of unredeemed loan notes.

A full explanation of the Group's borrowings and any changes since the balance sheet date can be found in the Financial Review on pages 35 to 41.

c) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The nature and extent of the Group's financial instrument risks, and the Directors' approach to managing those risks, are described in the Financial Review on pages 35 to 41 and below. This note provides further detailed information on these instruments.

Interest rate maturity profile of financial liabilities

The following table sets out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk:

							2010 Maturity
	Within one year £'000	**One to two years £'000**	**Two to three years £'000**	**Three to four years £'000**	**Four to five years £'000**	**More than five years £'000**	**Total £'000**
Fixed rate borrowings	**—**	**—**	**—**	**—**	**—**	**77,565**	**77,565**
Variable rate borrowings	**848**	**—**	**31,113**	**—**	**6,200**	**—**	**38,161**
Variable rate borrowings with interest rate caps or swaps	**—**	**6,565**	**15,296**	**—**	**—**	**40,298**	**62,159**
	848	**6,565**	**46,409**	**—**	**6,200**	**117,863**	**177,885**

							2009 Maturity
	Within one year £'000	One to two years £'000	Two to three years £'000	Three to four years £'000	Four to five years £'000	More than five years £'000	Total £'000
Fixed rate borrowings	—	—	—	—	—	20,000	20,000
Variable rate borrowings	12,997	2,000	—	32,300	—	—	47,297
Variable rate borrowings with interest rate caps or swaps	—	—	—	12,955	5,997	41,650	60,602
	12,997	2,000	—	45,255	5,997	61,650	127,899

Interest on financial instruments classified as variable rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial assets and financial liabilities of the Group that are not included above are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group does not undertake significant trade overseas, but does hold certain assets, amounting to £642,000 (2009: £642,000) denominated in foreign currencies. The currency exposure arising from these investments is not considered to materially affect the Group's operations and is not subject to hedging arrangements.

The Group is exposed to foreign currency risk from €47,000,000 (2009: €47,000,000) loan notes issued during 2007 that are denominated in Euros.

The Group has entered into a cross-currency interest rate swap with a banking institution to minimise any potential risks. The cross-currency interest rate swap is cash collateralised and qualifies to be accounted for as a cash flow hedge as detailed below. The fair value of this cross-currency interest rate swap at 31st December 2010 was an asset of £3,308,000 (2009: £7,473,000).

The Group maintains a security deposit of £4,000,000 (2009: £4,000,000) throughout the loan note term. The security deposit is required to cash collateralise the foreign exchange risk of the cross-currency interest rate swap for the swap counterparty if Sterling appreciates against the Euro. The Group is further required to increase this security if £/€ appreciation is greater than 5.0 per cent. Since the issue of the loan notes in September 2007, the Euro has appreciated against Sterling.

16 Financial assets and financial liabilities continued

c) Financial risk management continued

The following table demonstrates the possible effect of changes in Sterling and Euro exchange rates with all other variables held constant:

	Increase/ decrease in Euro rate	Effect on cash collateral £'000
2010		
Euro	**+8%**	**(442)**
	–8%	**522**
2009		
Euro	+8%	(456)
	–8%	536

The Group does not undertake significant foreign exchange trading activity; consequently, a detailed foreign exchange sensitivity analysis is not presented.

Interest rate sensitivity

The following table demonstrates the sensitivity in respect of variable rate debt obligations to a change in interest rates, with other variables held constant, of the Group's profit/(loss) before income tax.

The sensitivity analysis excludes all non-derivative fixed-rate financial instruments carried at amortised cost as well as variable rate financial instruments with associated effective fixed-rate hedging instruments or currency hedging instruments.

Fair value interest rate hedging instruments that are part of a hedging relationship have been excluded. Variable rate non-derivative financial instruments where the associated interest has been capitalised have also been excluded.

	Increase/ decrease in basis points	Effect on profit before tax £'000
2010		
Sterling	**+50**	**221**
	–50	**(221)**
2009		
Sterling	+50	345
	–50	(345)

Liquidity risk

A review of the Group's liquidity risk is set out in the Financial Review on pages 35 to 41.

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2010 and 2009 on a contractual undiscounted payments basis:

						2010
Maturity profile of financial liabilities	**On demand £'000**	**Less than three months £'000**	**Three to twelve months £'000**	**One to five years £'000**	**More than five years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**106**	**1,577**	**6,931**	**89,381**	**157,513**	**255,508**
Trade and other payables	**—**	**15,966**	**9,021**	**—**	**—**	**24,987**
Provisions	**—**	**—**	**—**	**1,417**	**4,634**	**6,051**
Derivative financial instruments	**—**	**254**	**761**	**5,128**	**17,446**	**23,589**
	106	**17,797**	**16,713**	**95,926**	**179,593**	**310,135**

						2009
Maturity profile of financial liabilities	On demand £'000	Less than three months £'000	Three to twelve months £'000	One to five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	27	534	16,725	63,269	74,592	155,147
Trade and other payables	—	13,856	14,417	—	—	28,273
Provisions	—	—	—	1,490	6,249	7,739
Derivative financial instruments	—	406	1,276	3,491	20,510	25,683
	27	14,796	32,418	68,250	101,351	216,842

Market risk

A summary of market risk and its effect on the Group is set out in Business Risks on page 5 and further discussed in the Chief Executive's Statement on pages 8 and 9 and in the Operating Review on pages 10 to 31.

Fair values of financial assets and financial liabilities

Except as detailed below, in respect of fixed rate debenture and loan facilities, the Directors consider the carrying amount to be either fair value or a reasonable approximation of fair value apart from equity instruments classified as available-for-sale assets under IAS 39, where fair value cannot be reliably measured.

Fixed rate debt

A valuation was carried out as at 31st December 2010 by J C Rathbone Associates Limited, to calculate the market value of the Group's fixed rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rate of appropriate debt instruments. Whilst the replacement basis provides a consistent method for valuation of fixed rate debt, such financing facilities are in place to provide continuing funding for the Group's activities. The valuation is therefore only an indication of a notional effect on the net asset value of the Group as at 31st December 2010 and may be subject to daily fluctuations in line with money market movements.

The fair value compared to the carrying amounts of the Group's fixed rate financial liabilities as at 31st December 2010 is analysed below:

	Book value 31st December 2010 £'000	**Fair value 31st December 2010 £'000**
First Mortgage debenture 11% due 2016	**20,000**	**25,711**
Fixed rate term loan due 2025	**57,565**	**60,819**
Total fixed rate financial liabilities	**77,565**	**86,530**

	Book value 31st December 2009 £'000	Fair value 31st December 2009 £'000
First Mortgage debenture 11% due 2016	20,000	25,443
Total fixed rate financial liabilities	20,000	25,443

The fair value difference of £8,965,000 at 31st December 2010 (2009: £5,443,000) represents approximately 11.6 per cent of gross, fixed rate borrowings (2009: 27.2 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 5.3 pence after tax (2009: 4.8 pence).

d) Derivative financial instruments

	2010 £'000	2009 £'000
Cash flow hedges: cross-currency interest rate swap	**3,302**	7,473
Derivative financial instruments at fair value through the Statement of Comprehensive Income:		
Interest rate caps and collars	**6**	(2,126)

At 31st December 2010, the Group held one cross-currency interest rate swap designated as a hedge of expected future cash flows arising from €47,000,000 variable rate loan notes issued in September 2007. The cross-currency swap is used to hedge the EURIBOR interest rate exposure to a fixed rate of 7.97 per cent (fixed at a rate of €1.43:£) and Euro currency exposure from the loan notes. The terms of the derivative have been negotiated to match the terms of the loan notes.

The cash flow hedge of the expected future loan note cash flows was assessed to be effective. The mark-to-market movement in the foreign currency leg of the swap of £1,352,000 (2009: £3,231,000) has been recycled through the Statement of Comprehensive Income to offset the re-translation of the €47,000,000 loan. The mark-to-market movement on the interest leg of this swap of £2,819,000 loss (2009: £2,794,000 gain) is included within the net unrealised gain/(loss) reserve in equity.

At 31st December 2010, the Group held interest rate caps and swaps designated as economic hedges and not qualifying as effective hedges under IAS 39. The derivatives are used to mitigate the Group's interest rate exposure to variable rate loans of £6,565,000 (2009: £30,952,000). The fair value of the derivatives £6,000 is recorded as a financial asset at 31st December 2010 (2009: £2,126,000 liability) with the fair value gain/(loss) taken to finance costs.

Fair value estimation

From 1st January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the Balance Sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

16 Financial assets and financial liabilities continued

d) Derivative financial instruments continued

The following table presents the Group's assets and liabilities that are measured at fair value at 31st December.

	2010				2009			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets								
Derivative financial instruments:								
Cross-currency interest rate swap	**—**	**3,302**	**—**	**3,302**	—	7,473	—	7,473
Derivative financial instruments at fair value through the Statement of Comprehensive Income	**—**	**6**	**—**	**6**	—	—	—	—
Total assets	**—**	**3,308**	**—**	**3,308**	—	7,473	—	7,473
Liabilities								
Derivative financial instruments at fair value through the Statement of Comprehensive Income	**—**	**—**	**—**	**—**	—	(2,126)	—	(2,126)
Total liabilities	**—**	**—**	**—**	**—**	—	(2,126)	—	(2,126)

17 Deferred income tax

The following are the deferred income tax liabilities and assets and movements thereon recognised by the Group during the current and previous financial year. The UK corporation tax rate will decrease on 1st April 2011 from 28.0 per cent to 27.0 per cent. Deferred income tax is calculated on the temporary differences under the liability method using a tax rate of 27.0 per cent (2009: 28.0 per cent).

	2010 £'000	2009 £'000
At 1st January	**—**	—
Charge/(credit) for the year in the Statement of Comprehensive Income (note 7)	**761**	(783)
(Credited)/charged directly to equity	**(761)**	783
At 31st December	**—**	—

	2010 £'000	2009 £'000
Tax on items (credited)/charged to equity:		
Deferred tax (credit)/charge on other revaluations	**(761)**	783
	(761)	783

Revaluation of property	**2010 £'000**	2009 £'000
Deferred income tax liabilities recognised:		
At 1st January	**3,912**	3,495
Charged to the Statement of Comprehensive Income	**1,595**	417
At 31st December	**5,507**	3,912

	Decelerated capital allowances £'000	Provisions £'000	Tax losses £'000	Other £'000	Total £'000
Deferred income tax assets recognised:					
At 1st January 2009	(571)	(211)	(2,706)	(7)	(3,495)
Charged/(credited) to the Statement of Comprehensive Income	79	75	(1,404)	50	(1,200)
Charged directly to equity	—	—	783	—	783
At 31st December 2009	(492)	(136)	(3,327)	43	(3,912)
Charged/(credited) to the Statement of Comprehensive Income	78	(222)	(690)	—	(834)
Credited directly to equity	—	—	(761)	—	(761)
At 31st December 2010	(414)	(358)	(4,778)	43	(5,507)

	2010 £'000
Net deferred income tax asset:	
At 31st December 2010	**—**

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Deferred income tax assets arising from the Group's trading and capital losses are recognised on the basis that there will be sufficient profits in the foreseeable future to utilise such losses. The Group has not recognised deferred income tax assets of £11,839,000 (2009: £12,099,000) in respect of losses amounting to £43,848,000 (2009: £43,211,000) that can be carried forward against future taxable income. The proposed reductions of the main rate of corporation tax by 1.0 per cent per annum to 24.0 per cent by 1st April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27.0 per cent to 24.0 per cent, if these applied to the deferred tax balance at 31st December 2010, would be to reduce the net deferred income tax asset by £nil.

Movements in deferred income tax assets and liabilities (prior to the offsetting of balances) are shown on the previous page.

18 Share capital

	2010 £'000	2009 £'000
Issued, called up and fully paid:		
122,352,504 Ordinary shares of 50 pence (2009: 82,256,474 Ordinary shares of 50 pence)	**61,176**	41,128

	Number of shares
Shares in issue at the date of this report	**122,352,504**

The Company has one class of Ordinary shares which carry no right to fixed income.

During the year, 40,096,030 shares were issued as a result of a Placing and Rights Issue at an 8.8 per cent discount to the market price, at 250 pence per share, raising £100,240,000. Transaction costs relating to the Placing and Rights Issue amounted to £6,514,000.

During 2009, 41,653,260 shares were issued as a result of a Firm Placing and Placing and Open Offer at a 9.1 per cent discount to the market price, at 240 pence per share, raising £99,967,000. Transaction costs relating to the Firm Placing and Placing and Open Offer amounted to £5,946,000.

From 1st October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. Shareholders wishing to restrict the number of shares that can be issued by a company need to address this issue in the Company's Articles.

The movement in share capital is set out in note 19.

Share option schemes

As at 31st December 2010, and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 52 to 59.

Executive share option scheme 1995:

Date of grant	Number 31.12.10	Number 01.03.11	Exercise dates	Price
27th March 2001	29,861	29,861	27th March 2004 to 26th March 2011	326.25
30th April 2001	47,053	36,596	30th April 2004 to 29th April 2011	383.25
19th April 2004	69,382	69,382	19th April 2007 to 18th April 2014	347.50
	146,296	135,839		

Executive share option plan 2005:

Date of grant	Number 31.12.10	Number 01.03.11	Exercise dates	Price
27th October 2005	41,435	41,435	27th October 2008 to 26th October 2015	430.25
28th April 2006	41,435	41,435	28th April 2009 to 27th April 2016	559.75
8th May 2009	103,587	103,587	8th May 2012 to 7th May 2019	275.00
31st August 2010	120,000	120,000	31st August 2013 to 30th August 2020	248.00
	306,457	306,457		

Save as you earn option plan 2005:

Date of grant	Number 31.12.10	Number 01.03.11	Exercise dates	Price
28th October 2008	75,894	70,993	1st December 2011 to 31st May 2012	274.16
	75,894	70,993		

18 Share capital continued

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	2010 Number	**2010 Weighted average exercise price (pence)**	2009 Number	2009 Weighted average exercise price (pence)
At 1st January	**418,447**	**346.2**	407,889	410.7
Options granted	**120,000**	**248.0**	100,000	275.0
Options lapsed	**(7,281)**	**274.2**	(3,921)	298.7
Options cancelled	**(2,519)**	**274.2**	(100,000)	499.8
Adjustment following Firm Placing and Placing and Open Offer	**—**	**—**	14,479	346.3
At 31st December	**528,647**	**325.3**	418,447	346.2

Any options granted on or before 7th November 2002 have not been recognised under IFRS 2 under the exemption in that standard. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The weighted average fair value of options granted during the year was £0.50 (2009: £0.50). The average share price during the year was 255.0 pence (2009: 285.0 pence). Of the 528,647 (2009: 418,447) outstanding options at 31st December 2010, 229,166 were exercisable (2009: 229,166).

The options outstanding at 31st December 2010 were exercisable between 274.16 pence and 559.75 pence per share and have a weighted average remaining contractual life of 4.2 years (2009: 4.4 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	31.08.10	08.05.09	28.10.08	28.04.06	27.10.05	19.04.04
Exercise price (pence)	248.0	275.0	274.16	559.75	430.25	347.5
Term (years)	7	7	3	7	7	7
Expected volatility	23%	79%	90%	22%	20%	10%
Expected dividend yield p.a.	1.9%	2.0%	2.0%	1.5%	1.5%	1.5%
Risk-free rate	2.9%	1.5%	3.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 52 to 59.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	2010 £'000	2009 £'000
Ordinary shares conditionally awarded (no. of shares)	**527,621**	660,277
Date of award	**23rd April**	8th May
Share price (pence)	**264.0**	310.0
Percentage probability applied for fair value	**36.88%**	36.88%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the year is £nil (2009: £nil). The expense recognised for cash-settled share-based payments during the year is £19,000 (2009: £68,000).

19 Reserves and movements in equity

	Share capital £'000	Share premium £'000	Property revaluation reserve £'000	Share-based payments reserve £'000	Net unrealised gain/(loss) reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Merger reserve £'000
At 1st January 2009	20,302	109,907	789	64	(2,508)	1,631	44,188	—
Net proceeds of issue of new shares	20,826	(5,946)	—	—	—	—	—	79,141
Transfer of merger reserve to retained earnings	—	—	—	—	—	—	—	(79,141)
Fair value of cross-currency interest rate swap	—	—	—	—	2,794	—	—	—
Share-based payments	—	—	—	(64)	—	—	—	—
Deferred income tax charged directly to equity	—	—	—	—	(783)	—	—	—
Deficit on revaluation of operating properties	—	—	(352)	—	—	—	—	—
At 31st December 2009	41,128	103,961	437	—	(497)	1,631	44,188	—
Net proceeds of issue of new shares	20,048	—	—	—	—	—	—	73,678
Transfer of merger reserve to retained earnings	—	—	—	—	—	—	—	(73,678)
Fair value of cross-currency interest rate swap	—	—	—	—	(2,819)	—	—	—
Deferred income tax credited directly to equity	—	—	—	—	761	—	—	—
Deficit on revaluation of operating properties	—	—	(310)	—	—	—	—	—
At 31st December 2010	61,176	103,961	127	—	(2,555)	1,631	44,188	—

The merger reserve comprises the premium on shares following the Placing and Rights Issue in July and August 2010 and the Firm Placing and Placing and Open Offer in July 2009. No share premium is recorded in the Company's financial statements through the operation of the Merger Relief provisions of the Companies Act 2006. The subsequent redemption of these shares gave rise to distributable profits of £73,678,000 (2009: £79,141,000), which have been transferred to Retained earnings.

Transaction costs of £6,514,000 have been charged through the newly created merger reserve in the year. Prior to amendments to the Companies Act 2006, transaction costs were charged to the share premium account.

The Capital redemption reserve arose from business combinations in prior financial periods. This reserve is not distributable.

Retained earnings	Retained earnings £'000
At 1st January 2009	(13,328)
Loss for the year	(10,694)
Transfer from merger reserve	79,141
Final dividend 2008	(974)
Interim dividend 2009	(974)
At 31st December 2009	53,171
Profit for the year	1,678
Transfer from merger reserve	73,678
Final dividend 2009	(1,974)
Interim dividend 2010	(1,974)
At 31st December 2010	124,579

20 Business combinations

On 29th March 2010, the Group acquired 100.0 per cent of the issued shares in Henry Davidson Developments Limited (HDD), a property development company specialising in neighbourhood retail schemes.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	£'000
— Cash paid	1,574
— Inter-company loan repayment	2,210
Total purchase consideration	3,784

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value £'000
Inventory – development and trading properties	18,114
Trade and other receivables	2,224
Trade and other payables	(14,406)
Borrowings	(3,416)
Net identifiable assets acquired	2,516
Goodwill	1,268
	3,784

The goodwill of £1,268,000 is attributable to HDD's expertise and reputation and expected future profits of development projects that were acquired. None of the goodwill is expected to be deductible for tax purposes.

(a) Acquisition-related costs

Acquisition-related costs of £228,000 are included in operating expenses in the Statement of Comprehensive Income.

(b) Acquired receivables

The fair value of trade and other receivables is £2,224,000 and includes trade receivables with a fair value of £13,000.

(c) Acquired inventory

The fair value adjustments in respect of inventory relate to specific projects that are due to generate profits in the short-term. The profits have been adjusted for project-specific risks and uncertainties that may impact the profit level. These adjustments are based on Directors' best estimates.

(d) Revenue and profit contribution

The acquired business contributed revenues of £8,130,000 and a net profit of £1,326,000 to the Group for the period from 29th March 2010 to 31st December 2010. If the acquisition had occurred on 1st January 2010, consolidated revenue and consolidated profit for the year ended 31st December 2010 would have been £8,130,000 and £261,000 respectively.

21 Note to the cash flow statement

Reconciliation of operating profit/(loss) to net cash (outflow)/inflow from operating activities:

	2010 £'000	2009 £'000
Profit/(loss) before income tax	**2,649**	(11,387)
Adjustments for:		
Gain on disposal of investment properties	**(313)**	—
Net gain on revaluation of property portfolio	**(8,769)**	(3,681)
Other income	**(186)**	(41)
Share of post-tax (profits)/losses of joint ventures and associates	**(2,914)**	10
Provision for impairment of joint ventures	**—**	422
Income from financial assets	**—**	(503)
Loss on sale of other fixed assets	**32**	14
Profit on sale of investments	**—**	(221)
Finance income	**(1,542)**	(2,065)
Finance cost	**11,510**	8,795
Depreciation of property, plant and equipment	**701**	541
Operating cash flows before movements in working capital	**1,168**	(8,116)
Increase in development and trading properties	**(61,014)**	(20,628)
(Increase)/decrease in receivables	**(570)**	25,975
(Decrease)/increase in payables	**(8,318)**	5,158
(Decrease)/increase in provisions	**(1,071)**	1,140
Cash flows from operating activities	**(69,805)**	3,529

22 Financial commitments and operating lease arrangements

Financial commitments authorised and commitments not provided for in these financial statements are estimated at:

	2010 £'000	2009 £'000
Financial commitments	**33,795**	8,422
Group share of the financial commitments of joint ventures and associates	**11,741**	10,019

Operating lease arrangements:

Operating lease arrangements in respect of land and buildings where the Group is lessee:

	2010 £'000	2009 £'000
Minimum lease payments under operating leases recognised for the year	**3,109**	2,235

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £'000	2009 £'000
Within one year	**3,726**	3,109
In the second to fifth years inclusive	**14,171**	14,774
After five years	**15,380**	22,555
	33,277	40,438

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases were negotiated for an average term of 15.2 years (2009: 15.5 years).

In respect of operating lease arrangements where the Group is lessor, at the balance sheet date, the Group had contracted with tenants for the following future minimum payments:

	2010 £'000	2009 £'000
Within one year	**13,380**	10,773
In the second to fifth years inclusive	**46,821**	34,785
After five years	**86,099**	68,691
	146,300	114,249

Property investment income earned during the year was £12,865,000 (2009: £10,080,000).

23 Contingent liabilities

In the normal course of its development activity the Group is required to guarantee performance bonds provided by banks in respect of certain obligations of Group companies. At 31st December 2010 such guarantees amounted to £34,000 (2009: £134,000).

The Group has provided guarantees for rent liabilities in respect of properties previously occupied by Group companies. In the event that the current tenants ceased to pay rent, the Group would be liable to cover any shortfall until the building could be re-let. The Group has made provision against crystallised liabilities in this regard. In respect of potential liabilities where no provision has been made, the annual rent-roll of the buildings benefiting from such guarantees is £374,000 (2009: £374,000) with an average unexpired lease period of 6.7 years (2009: 7.7 years).

The Group has guaranteed its share of the interest payable by Wessex Property Fund (see note 12(a)) in respect of the Fund's borrowings of £17,500,000. The interest liability is currently covered by the Fund's rental income.

The Group has also guaranteed its share of the capital and interest payable by Curzon Park Limited, a joint venture, in respect of the company's borrowings of £15,610,000.

24 Pension scheme

The Company operates a defined contribution scheme for Directors and employees. Monthly premia are invested in an independent insured fund. The amounts charged to the Statement of Comprehensive Income during the year are set out in note 5.

25 Related parties

During the year, the Group entered into transactions, in the ordinary course of business, with related parties.

Transactions entered into and balances outstanding at 31st December with related parties are set out below. Only Directors are considered to be key management personnel. There were no transactions with Directors other than remuneration set out in the Remuneration Report on pages 52 to 59.

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties (before provision) £'000	Amounts owed to related parties £'000
Joint ventures				
2010	**—**	**—**	**11,473**	**—**
2009	—	—	8,362	—
Associates				
2010	**—**	**—**	**14,341**	**—**
2009	—	—	12,106	—

26 Projects in partnership

The following is a summary of the Group's projects in partnership and the Balance Sheet classification of its financial interests:

Project/partner	Project activity	Accounting classification	**2010 £'000**	2009 £'000
Barwood Land and Estates Limited	Strategic land investment	Investment in associates	**1,500**	1,500
		Financial assets	**1,178**	—
Atlantic Park (Bideford) Limited	Strategic land investment	Investment in associates	**444**	—
Wessex Property Fund	Property investment	Investment in associates	**—**	—
CTP Securities Limited	Property development	Investment in associates	**—**	—
		Financial assets	**14,328**	11,955
Continental Estates Corporation BV	Holding of investments	Investment in associates	**—**	—
		Financial assets	**89**	89
Manchester Arena Complex LP	Investment property	Investment in joint ventures	**9,718**	—
Curzon Park Limited	Property development	Investment in joint ventures	**—**	—
		Financial assets	**5,000**	—
Wimbledon Phoenix Limited	Property development	Investment in joint ventures	**—**	—
Beyond Green Developments	Property development	Development properties	**4,516**	2,916
Wessex Investors	Property development	Development properties	**3,121**	—
Grantham Associates	Hotel operator	Trading property	**4,215**	—
Orion Shepherds Bush Limited	Property development	Financial assets	**408**	—
Cathedral (Greenwich Village) LLP	Property development	Financial assets	**1,437**	—
Henry Davidson Developments Group	Property development	Financial assets	**—**	10,131
			45,954	26,591

The aggregate amounts included within each relevant Balance Sheet account are as follows:

	2010 £'000	2009 £'000
Investment in associates	**1,944**	1,500
Investment in joint ventures	**9,718**	—
Financial assets – current	**200**	10,331
Financial assets – non-current	**22,240**	11,844
Development properties	**7,637**	2,916
Trading properties	**4,215**	—
	45,954	26,591

27 Post balance sheet events

Since the balance sheet date the Group has entered into the following significant contracts:

In January 2011, the Group acquired an investment property in Watford, Hertfordshire for £4,250,000. In February 2011, the Group acquired a residential property in Sandbanks, Dorset for £5,000,000.

In February 2011, the Group acquired the remaining 50.0 per cent of the share capital of Wimbledon Phoenix Limited for £nil consideration.

Company Independent Auditors' Report

Independent auditors' report to the members of Development Securities PLC

We have audited the Parent company financial statements of Development Securities PLC for the year ended 31st December 2010 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the Parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial statements sufficient to give reasonable assurance that the Financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the Parent company financial statements are prepared is consistent with the Parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Development Securities PLC for the year ended 31st December 2010.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1st March 2011

Company Balance Sheet

As at 31st December 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Fixed assets					
Tangible assets	31	**963**		626	
Financial assets	34	**6,111**		3,330	
Investments	32	**96,198**		95,341	
			103,272		99,297
Current assets					
Financial assets	34	**467**		10,598	
Debtors	33	**525,742**		416,457	
Cash in hand and at bank		**50,167**		23,846	
		576,376		450,901	
Creditors					
Amounts falling due within one year	35(a)	**(312,844)**		(321,789)	
Net current assets			**263,532**		129,112
Total assets less current liabilities			**366,804**		228,409
Creditors					
Amounts falling due after more than one year:					
Bank loans	35(b)	**(56,850)**		—	
Provisions for liabilities	35(c)	**(4,634)**		(4,400)	
			(61,484)		(4,400)
Net assets			**305,320**		224,009
Capital and reserves					
Called up share capital	36		**61,176**		41,128
Share premium	37		**103,961**		103,961
Capital redemption reserve	37		**1,631**		1,631
Profit and loss account	37		**138,552**		77,289
Total equity shareholders' funds			**305,320**		224,009

The notes on pages 101 to 107 are an integral part of these financial statements.

Approved by the Board of Directors on 1st March 2011 and signed on its behalf by

M H Marx
Director

28 Accounting policies

a) Basis of accounting

The Company's financial statements have been prepared in accordance with applicable laws and United Kingdom accounting standards and on a going concern basis and under the historical cost convention. The accounting policies adopted are consistent with the previous year and are set out below.

The Company has not presented its own profit and loss account, as permitted by s408 of the Companies Act 2006. The loss after tax for the year was £8,467,000 (2009: £7,772,000).

The Company has taken advantage of the exemption from preparing a Cash flow statement under the terms of FRS 1.

The Company has also taken advantage of the exemption in paragraph 2D of FRS 29, 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7, 'Financial Instruments: Disclosures'.

The accounts were approved by the Directors for issue on 1st March 2011.

b) Investments

The Company's investments in subsidiaries, associates and joint ventures are accounted for in the financial statements at cost less any provision for impairment.

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

c) Operating leases

Rental payments under operating leases are charged on a straight-line basis to the profit and loss account over the lease term even if the payments are not made on such a basis.

d) Tangible assets

Tangible assets are held at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided so as to write off the cost less estimated residual value of such assets over their expected useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

e) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The accretion in the discount is recognised as an interest expense.

f) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date, together with any adjustment in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, 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 or unutilised tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account. Deferred tax is measured on a non-discounted basis.

g) Pension schemes

The Company operates a defined contribution scheme on behalf of the Development Securities PLC Group. The charge to the profit and loss account in the period represents the actual amount payable to the scheme in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

h) Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the Profit and loss account.

i) Share-based payments

The Company operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Company. The fair value of the employee services received in exchange for the grant of the option is recognised as an expense.

The Company has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing cash-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Profit and loss account, with a corresponding entry in accruals.

29 Auditors' remuneration

Auditors' remuneration in respect of the audit for the Company was £15,000 (2009: £15,000).

During the year, the Company's auditor received fees of £357,000 in respect of the Placing and Rights Issue (2009: £380,000 in respect of the Firm Placing and Placing and Open Offer).

30 Operating lease arrangements

The Company as lessee:	**2010 £'000**	2009 £'000
Minimum lease payments under operating leases recognised for the year	**941**	471

Annual commitments under non-cancellable operating leases are as follows:

	2010 £'000	2009 £'000
Operating leases which expire:		
Within one year	**—**	472
In the second to fifth years inclusive	**1,168**	—
After five years	**763**	1,168
	1,931	1,640

In 2009, the Company exercised a break relating to the lease commitment of £443,000, which is why it was analysed as expiring within one year.

Operating lease payments represent rentals payable by the Company for its office property. The lease payments were negotiated for an average term of 11.5 years (2009: 13.4 years).

31 Tangible assets

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:			
At 1st January 2010	847	339	1,186
Additions	718	63	781
Disposals	(546)	(45)	(591)
At 31st December 2010	1,019	357	1,376
Accumulated depreciation:			
At 1st January 2010	400	160	560
Charge for the year	144	71	215
Disposals	(327)	(35)	(362)
At 31st December 2010	217	196	413
Net book amount 31st December 2010	802	161	963
Net book amount 31st December 2009	447	179	626

32 Investments

	Shares in subsidiary undertakings £'000	Interest in associated undertakings £'000	Interest in loan notes £'000	Interest in joint ventures £'000	Total £'000
Cost at 1st January 2010	129,630	997	9,014	446	140,087
Additions	3,784	—	—	—	3,784
At 31st December 2010	133,414	997	9,014	446	143,871
Amounts provided:					
At 1st January 2010	(42,803)	(997)	(500)	(446)	(44,746)
Provision	(2,927)	—	—	—	(2,927)
At 31st December 2010	(45,730)	(997)	(500)	(446)	(47,673)
Net book amount 31st December 2010	87,684	—	8,514	—	96,198
Net book amount 31st December 2009	86,827	—	8,514	—	95,341

Interest in loan notes includes £89,000 (2009: £89,000) invested in loan stock of Continental Estates Corporation BV. Continental Estates Corporation BV is incorporated and registered in The Netherlands. The company's principal activity is currently as an investment holding company. Details of the Company's equity investment in Continental Estates Corporation BV are set out in note 12(a) of the Group financial statements.

The addition of £3,784,000 in the year relates to the acquisition of the HDD Group of Companies (see note 20).

The Company holds £8,425,000 (2009: £8,425,000) of loan notes in CTP Securities Limited, a company incorporated and registered in the United Kingdom. The loan notes earn interest at a fixed rate of 4.25 per cent per annum.

The interest in joint ventures, representing the Company's investment in Wimbledon Phoenix Limited, is set out in note 12(b) of the Group financial statements.

The principal subsidiaries of the Company are set out in note 12(c) of the Group financial statements.

33 Debtors

	2010 £'000	2009 £'000
Trade debtors	**156**	21
Amounts owed by subsidiary undertakings	**518,360**	412,393
Other debtors	**3,708**	2,590
Other taxation recoverable	**1,598**	—
Prepayments	**1,920**	1,453
	525,742	416,457

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

34 Financial assets

Fixed assets	**2010 £'000**	2009 £'000
Available-for-sale financial assets – loans to joint ventures	**6,111**	3,330

Current assets	**2010 £'000**	2009 £'000
Available-for-sale financial assets – development participation	**—**	9,881
– loans and receivables (refer note 16(a))	**467**	717
	467	10,598

Development loans to joint ventures include a number of working capital and project specific loans of £5,703,000 (2009: £3,330,000) to CTP Securities Limited. The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. In addition an interest free loan of £208,000 is included in the above amount. In 2009, the Company also provided a short-term, non-interest bearing loan of £200,000 to CTP Securities Limited.

During 2010, the Company entered into a loan agreement with Orion Shepherds Bush Limited. As at 31st December 2010, £408,000 had been advanced, attracting a fixed coupon rate of 3.0 per cent.

In 2007, the Company entered into a five-year funding agreement with Fiducia Group Limited, providing finance by way of development participation, in the Henry Davidson Development (HDD) companies, for the development of neighbourhood retail facilities. On 29th March 2010, the Company acquired the HDD Group of companies. They are now classified as investments in subsidiaries.

35 Creditors

a) Amounts falling due within one year	2010 £'000	2009 £'000
Bank loans and overdrafts – unsecured	**17**	22
Trade creditors	**82**	13
Amounts owed to subsidiary undertakings	**304,448**	310,008
Amounts owed to associated undertakings	**1,932**	1,932
Other creditors	**2,455**	1,554
Taxation and social security	**1,460**	6,387
Accruals	**2,450**	1,873
	312,844	321,789

Amounts owed to subsidiary undertakings are unsecured, interest free and repayable on demand.

b) Amounts falling due after more than one year	2010 £'000	2009 £'000
Bank loans	**56,850**	—

c) Amounts falling due after more than one year	2010 £'000	2009 £'000
Provisions for liabilities	**4,634**	4,400

The onerous lease provision has arisen from two lease obligations entered into by the Group. A provision of £3,624,000 (2009: £3,100,000) has been made in respect of a lease to Stead & Simpson Limited of which Development Securities PLC is a guarantor. Stead & Simpson Limited was placed into administration on 28th January 2008. The lease was surrendered on 21st January 2011 and the provision represents the final liability due as guarantor.

The second provision is in respect of the Group's lease entered into on 19th December 2008 for office premises at One Kingdom Street, PaddingtonCentral. On 23rd December 2009, a lease was signed to sublet the office at PaddingtonCentral to MWB Business Exchange Plc, thereby facilitating a letting of the entire floor to this serviced office operator. The provision of £1,010,000 (2009: £1,300,000) relates to the shortfall in rent over the 15-year lease term.

These provisions have been calculated by making assumptions about future lettings, the outcome of which is uncertain.

36 Called up share capital

	2010 £'000	2009 £'000
Issued, called up and fully paid:		
122,352,504 Ordinary shares of 50 pence (2009: 82,256,474 Ordinary shares of 50 pence)	**61,176**	41,128

	Number of shares
Shares in issue at the date of this report	**122,352,504**

The Company has one class of Ordinary shares which carry no right to fixed income.

During the year, 40,096,030 shares were issued as a result of a Placing and Rights Issue at an 8.8 per cent discount to the market price, at 250 pence per share, raising £100,240,000. Transaction costs relating to the Placing and Rights Issue amounted to £6,514,000.

During 2009, 41,653,260 shares were issued as a result of a Firm Placing and Placing and Open Offer at a 9.1 per cent discount to the market price, at 240 pence per share, raising £99,967,000. Transaction costs relating to the Firm Placing and Placing and Open Offer amounted to £5,946,000.

From 1st October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. Shareholders wishing to restrict the number of shares that can be issued by a company need to address this issue in the Company's Articles.

The movement in share capital is set out in note 37.

Share option schemes

As at 31st December 2010 and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 52 to 59.

Executive share option scheme 1995:

Date of grant	Number 31.12.10	Number 01.03.11	Exercise dates	Price
27th March 2001	29,861	29,861	27th March 2004 to 26th March 2011	326.25
30th April 2001	47,053	36,596	30th April 2004 to 29th April 2011	383.25
19th April 2004	69,382	69,382	19th April 2007 to 18th April 2014	347.50
	146,296	135,839		

Executive share option plan 2005:

Date of grant	Number 31.12.10	Number 01.03.11	Exercise dates	Price
27th October 2005	41,435	41,435	27th October 2008 to 26th October 2015	430.25
28th April 2006	41,435	41,435	28th April 2009 to 27th April 2016	559.75
8th May 2009	103,587	103,587	8th May 2012 to 7th May 2019	275.00
31st August 2010	120,000	120,000	31st August 2013 to 30th August 2020	248.00
	306,457	306,457		

Save as you earn option plan 2005:

Date of grant	Number 31.12.10	Number 01.03.11	Exercise dates	Price
28th October 2008	75,894	70,993	1st December 2011 to 31st May 2012	274.16
	75,894	70,993		

36 Called up share capital continued

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	2010 Number	**2010 Weighted average exercise price (pence)**	2009 Number	2009 Weighted average exercise price (pence)
At 1st January	**418,447**	**346.2**	407,889	410.7
Options granted	**120,000**	**248.0**	100,000	275.0
Options lapsed	**(7,281)**	**274.2**	(3,921)	298.7
Options cancelled	**(2,519)**	**274.2**	(100,000)	499.8
Adjustment following Firm Placing and Placing and Open Offer	**—**	**—**	14,479	346.3
At 31st December	**528,647**	**325.3**	418,447	346.2

Any options granted on or before 7th November 2002 have not been recognised under IFRS 2 under the exemption in that standard. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The weighted average fair value of options granted during the year was £0.50 (2009: £0.50). The average share price during the year was 255.0 pence (2009: 285.0 pence). Of the 528,647 (2009: 418,447) outstanding options at 31st December 2010, 229,166 were exercisable (2009: 229,166).

The options outstanding at 31st December 2010 were exercisable between 274.16 pence and 559.75 pence per share and have a weighted average remaining contractual life of 4.2 years (2009: 4.4 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	31.08.10	08.05.09	28.10.08	28.04.06	27.10.05	19.04.04
Exercise price (pence)	248.0	275.0	274.16	559.75	430.25	347.5
Term (years)	7	7	3	7	7	7
Expected volatility	23%	79%	90%	22%	20%	10%
Expected dividend yield p.a.	1.9%	2.0%	2.0%	1.5%	1.5%	1.5%
Risk-free rate	2.9%	1.5%	3.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 52 to 59.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	2010	2009
Ordinary shares conditionally awarded (no. of shares)	**527,621**	660,277
Date of award	**23rd April**	8th May
Share price (pence)	**264.0**	310.0
Percentage probability applied for fair value	**36.88%**	36.88%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the year is £nil (2009: £nil). The expense recognised for cash-settled share-based payments during the year is £19,000 (2009: £68,000).

37 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Share-based payments £'000	Capital redemption reserve £'000	Merger reserve £'000
At 1st January 2009	20,302	109,907	64	1,631	—
Net proceeds of issue of new shares	20,826	(5,946)	—	—	79,141
Transfer of merger reserve to profit and loss account	—	—	—	—	(79,141)
Share-based payments	—	—	(64)	—	—
At 31st December 2009	41,128	103,961	—	1,631	—
Net proceeds of issue of new shares	20,048	—	—	—	73,678
Transfer of merger reserve to profit and loss account	—	—	—	—	(73,678)
At 31st December 2010	61,176	103,961	—	1,631	—

The merger reserve comprises the premium on shares following the Placing and Rights Issue in August 2010 and the Firm Placing and Placing and Open Offer in July 2009. No share premium is recorded in the Company's financial statements through the operation of the Merger Relief provisions of the Companies Act 2006. The subsequent redemption of these shares gave rise to distributable profits of £73,678,000 (2009: £79,141,000), which have been transferred to the Profit and loss account.

Profit and loss account	Profit and loss account £'000
At 1st January 2009	7,868
Loss for the year	(7,772)
Transfer from merger reserve	79,141
Final dividend 2008	(974)
Interim dividend 2009	(974)
At 31st December 2009	77,289
Loss for the year	(8,467)
Transfer from merger reserve	73,678
Final dividend 2009	(1,974)
Interim dividend 2010	(1,974)
At 31st December 2010	138,552

The loss after tax of the Company was £8,467,000 (2009: £7,772,000).

38 Contingent liabilities

The contingent liabilities of the Group are set out in note 23. The Company has provided guarantees in respect of loans and overdrafts of its subsidiary entities totalling £119,472,000 (2009: £121,902,000). In addition, the Company has guaranteed the performance of subsidiary entities under a range of operating obligations, none of which is expected to give rise to a liability in the Company.

39 Related parties

Related party transactions are the same for the Company as for the Group. Details can be found in note 25 of the Group financial statements.

Annual General Meeting	27th May 2011
Payment of Ordinary Dividend	6th July 2011
Announcement of Interim Results to 30th June 2011	August 2011

Interim Company Secretary
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Barclays Bank PLC
Lloyds Banking Group
Santander Group
The Royal Bank of Scotland plc

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Financial advisors
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