ANNUAL RESULTS 2016 ANNOUNCEMENT

DERWENT LONDON PLC

DERWENT
LONDON

28 February 2017

Derwent London plc ("Derwent London" / "the Group")

RESULTS FOR YEAR ENDED 31 DECEMBER 2016
RECORD LETTING YEAR, FINAL DIVIDEND UP 25% AND SPECIAL DIVIDEND ANNOUNCED

Financial highlights

- EPRA[1] net asset value per share increased 0.5% to 3,551p from 3,535p at 31 December 2015, 1.3% lower than 3,598p at 30 June 2016
- Net rental income increased 5.2% to £145.9m from £138.7m in 2015
- EPRA earnings rose 8.9% to £85.7m from £78.7m last year
- EPRA earnings per share increased 7.9% to 76.99p per share from 71.34p in 2015

Final dividend increased 25%

- Proposed final dividend per share increased by 25.0% to 38.50p making 52.36p for the full year, an increase of 20.6%
- Increase reflects strong recurring earnings growth since 2014 and de-risking of 2017-18 pipeline

Operational performance

- Record year of lettings totalling £31.4m, on average 6.3% above December 2015 ERV
- Estimated rental values (ERV) on an EPRA basis increased by 5.1% in 2016 (by 1.0% in H2)
- Portfolio valued at £5.0bn; underlying fall in value 0.2% in the year, with a decrease of 1.7% in H2
- Valuation uplift on developments was 4.7% in the year
- Total property return was 2.9% which was ahead of the IPD Central London Offices Quarterly Index of 2.6%
- True equivalent yield was 4.83%: a 31bp rise in 2016 of which 25bp was in H2
- Investment property disposals totalled £208m on average 3.7% above December 2015 values
- Capital expenditure was £213.5m and acquisitions £18m

Good growth potential and a strong start to 2017 and special dividend of 52p per share proposed

- Total cash rental reversion was estimated at £134.2m in December 2016, which requires £363m of outstanding capital expenditure, and was 39% contractual or pre-let
- New lettings since December 2016 total £11.5m, including the pre-letting to Arup of 41% of the main 80 Charlotte Street W1 development building completing in 2019
- Current development programme 44% pre-let by income, up from 8% in December 2015
- Leases regeared enabling Expedia to take at least 231,400 sq ft at Angel Building EC1 from 2020 until 2030
- Agreements to dispose of two properties in excess of book value raising £327m before costs
- Proposed special dividend of 52p per share

Robust financial position

- Financial ratios: interest cover 3.7x, dividend cover 1.5x and LTV 17.7%
- Net debt marginally lower at £904.8m in 2016
- Debt maturity was extended to 7.7 years in 2016 from 7.3 years in 2015
- Cash and undrawn facilities of £383m exceed committed project capital expenditure of £363m

[1]Explanations of how the EPRA figures are derived from IFRS are shown in Note 22

Robbie Rayne, Chairman, commented:

"Despite economic and political headwinds last year, today's results demonstrate the strong progress made by Derwent London in 2016, providing evidence of the underlying strength of our business and the quality of our people and portfolio. The Board has proposed a 25% increase in the final dividend, reflecting our financial position and the de-risking of our 2017/2018 pipeline in the last twelve months. In addition, following the value-enhancing transactions announced today, we are proposing a special dividend of 52p per share."

John Burns, Chief Executive Officer, commented:

"These results highlight how our business model of creating well-designed and innovative office space in improving locations can make meaningful progress even in less buoyant market conditions. Whilst we believe it is right to remain cautious, we are in a strong financial position with a well balanced portfolio rich with opportunities which gives us considerable scope to create further growth in our business. 2017 has started well for us as evidenced by this morning's announcements."

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 09:30 GMT today. The audio webcast can be accessed via www.derwentlondon.com.

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

A recording of the conference call will also be made available following the conclusion of the call on www.derwentlondon.com.

For further information, please contact:

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CHAIRMAN'S STATEMENT

Overview

Derwent London delivered its operational strategy successfully throughout 2016 despite a background of significant political change and the ensuing uncertainty originally stemming from June's EU referendum. 2016 was another record year of lettings for us which, combined with those achieved in recent years and reduced finance costs, resulted in an increase in EPRA earnings per share for the year of 7.9% to 76.99p.

Today's results demonstrate the resilience of our business model which is underpinned by continued demand for our well designed mid-market product in improving locations. We have a strong financial base, and an investment market that allows the balance between secure income and development opportunity to be maintained. In addition, we have talented and experienced people across the business with well established relationships with occupiers, third party professionals and local communities. These strengths are the result of considerable investment which has helped reinforce the Group's reputation, culture and brand.

Over the last few years we have looked to bolster the recurring earnings side of our total return model and this year's increase should be seen as a continuation of the substantial growth achieved in 2015. We have also significantly de-risked our development pipeline over recent months, and together, these two strategies have enabled us to recommend raising the final dividend by 25.0% to 38.50p, which takes the full year dividend to 52.36p. At this level the dividend will be covered 1.5 times by recurring earnings, and our average annual dividend growth since we converted to a REIT has been 9.8%. In addition, following the value-enhancing transactions announced today, we are proposing a special dividend of 52p per share to be paid along with the final dividend in June 2017.

The change in market sentiment in the second half of the year resulted in considerable share price weakness across the sector and a fall in the underlying value of our portfolio by 1.7% since June and 0.2% for the year. However, as stated above, the Group's recurring earnings have seen a strong increase and generated a positive total return for the year. Consequently the EPRA diluted NAV at 31 December 2016 was marginally higher at 3,551p per share, an increase of 0.5% over the year.

Whilst overall take-up in London offices slowed in 2016, our letting activity captured £31.4m pa of rental income on 547,500 sq ft, which surpassed our previous record achieved in 2015 by 16%. Despite a quieter period around the EU Referendum activity was spread evenly between the first and second halves.

The ongoing resilience of our particular markets, together with the Group's financial strength and the attractive potential returns of the Brunel Building development in Paddington W2, gave us the confidence to continue with this project. Overall, we incurred £213.5m of capital expenditure on our development projects during 2016 and at the year-end we were on site at four, Brunel Building W2, 80 Charlotte Street W1, White Collar Factory EC1 and The Copyright Building W1. Capital expenditure in 2017 is estimated at £158m, with no major schemes due to start.

The second half of the year saw a significant devaluation of sterling and an increase in overseas demand focussed on properties that produce long-term income. We took advantage of this supportive market and made 98% of our total investment sales of £208.0m after June. Overall, these disposals produced a 3.7% surplus over December 2015 book value.

During the year we extended the maturity of our debt through the issue of £105m of bonds in a US Private Placement and the extension of both our bank facilities. At the year end our financial position remained strong with interest cover of 3.7 times and LTV of 17.7%, while our undrawn facilities and cash exceeded our future capital expenditure on committed projects.

Our Sustainability Report, which is published simultaneously with the Annual Report, demonstrates the further progress we have made in this area. A major part of our sustainability programme is our work on relationships with our communities. We are therefore pleased to have extended our commitment by inaugurating a Tech Belt Community Fund to operate alongside our similar longstanding arrangement in

Fitzrovia. Given the importance that the Group attaches to its sustainability performance, it was pleasing to be ranked 12th overall and top in the UK in Corporate Knights Global 100, an annual list of the world's most sustainable companies announced at the recent World Economic Forum at Davos.

One of the Group's distinctive features is its focus on innovative design and this has again been recognised externally with two recent schemes, Turnmill and White Collar Factory, both winning awards.

Team

I would once again like to thank the Derwent London team for their continued expertise, enthusiasm and dedication without which these results would not have been possible.

The Board

Stuart Corbyn, who has served as a non-executive Director of the Company since 2006, is due to step down from the Board at the forthcoming AGM in May 2017. I would like to thank him for the advice and sound judgement that he has provided throughout this period. The Nominations Committee has started the process of finding a replacement for Stuart to allow a smooth transition. We anticipate making further announcements concerning this matter over the next few months.

Outlook

We expect much of the current economic uncertainty to persist as UK–EU negotiations are likely to be protracted. How this impacts on London businesses remains to be seen but, so far, activity has been surprisingly resilient with UK economic activity improving in the second half. However, although we believe that it is right to remain cautious and have positioned the business accordingly, we have limited space currently available and our product and locations continue to attract good occupational and investment demand.

CHIEF EXECUTIVE'S STATEMENT

The Group's operating performance in 2016 illustrates how our business model of creating well-designed mid-market flexible office space in improving locations can make meaningful progress even in less buoyant market conditions.

Derwent London has taken advantage of the recent levels of occupational demand to achieve a record level of lettings in 2016, although the pace of market activity has slowed with the increased uncertainty surrounding Brexit negotiations. We start 2017 with a low EPRA vacancy rate in a central London portfolio let at an undemanding average topped-up office rent of £45 per sq ft. This is comfortably at the lower end of our middle-market target range of £45 to £80 per sq ft, and very much at the affordable end of the spectrum. Our average lease length is 6.5 years or 7.8 years allowing for pre-lets.

Even after allowing for the changing outlook in the last eight months, our contractual cash rent of £150.3m, the basis of the portfolio's net initial yield, can grow by £75.8m from the expiry of rent free periods, minimum uplifts, pre-lets, or from reversions within the investment portfolio. Since then we have moved towards this by regearing the leases on 231,400 sq ft of the office space at Angel Building EC1 so that Expedia can occupy the majority of the building from 2020. This enabled us to capture the significant existing reversion, and there are now minimum uplifts at the next reviews in 2020 and 2021. In addition the income has been extended by between 9 and 14 years to 2030. CBRE estimate that this initiative has enhanced the building's value by 10%.

Letting our developments under construction and vacant space could add another £58.4m to rental income, after allowing for £363m of future capital expenditure to complete. Since the year end we have pre-let £10.7m, or 18% of this additional potential, principally from our first letting at 80 Charlotte Street W1 to Arup, and also another floor at White Collar Factory EC1 to Adobe. As a result our full development programme, which will not complete until 2019, is now 44% pre-let by income compared to 8% in December 2015.

In total, the reversionary gains in our existing portfolio could raise our contractual cash rental income by more than 85% in the next five years. In the coming 12 months, we aim to continue capturing our investment reversion, let the available space in our 2017 project completions and achieve more pre-lets on the 2019 deliveries. This strategy gives us the opportunity to tie in substantial income growth again this year while de-risking the development programme.

The Group continues to look for opportunities to replenish our future pipeline. However a lack of suitable opportunities meant that our only acquisition in 2016 was the long leasehold interest on part of The White Chapel Building. Conversely we were able to identify a number of opportunistic disposals which enabled us to sell £208m of property in 2016 where we felt that we had limited short-term value to add. These disposals have reinforced our balance sheet strength and our LTV ratio has fallen again to 17.7%. Since the year end we have agreed to sell an additional £327m of property above book value, which will further improve our financial position.

We, and our occupiers, face a number of challenges this year with heightened political and economic uncertainty and the impact of business rate increases in London from April 2017. It is still far too early to know what longer term impact these may have on the London market. So far the UK and London economies have been resilient and business confidence indicators have recovered from June 2016 levels. Our portfolio is well-balanced and opportunity rich. We have a skilled management team and financial flexibility. These attributes give us considerable scope to create further growth in our business over the next few years.

OUR CENTRAL LONDON OFFICE MARKET

See Appendix 1 for supporting graphs

Although overall office take-up in 2016 failed to match the high levels of recent years, the outcome proved to be much better than had been expected in the middle of the year. In total take-up of 12.2m sq ft was 17% below the previous year, but still close to the long-term trend. Despite the talk of an exodus of London bankers, important global businesses continued to make major commitments to London notably Amazon, Apple, Expedia, Facebook, Google and Wells Fargo among others. Three sectors continue to dominate take-up: business and professional services represented 28.6%, TMT's share has risen to 24.6% and banking and finance fell to 20.3%. However central London vacancy rates have risen from 2.3% to 4.3%. In the West End the vacancy rose a little less from 1.9% to 3.5%.

One year ago CBRE estimated that 7.1m sq ft of office space would be developed in 2016. In the event only 61% was delivered. This year it is estimated that 7.2m sq ft will be built, which, if completed, means that over the two years new supply is 2m sq ft lower than was expected at the beginning of last year. In total there is currently 12.5m sq ft under construction, which is 53% pre-let. Therefore the vacant element totals 5.9m sq ft or 2.6% of the total market. The West End's share is 1.9m sq ft under construction which is 41% pre-let, leaving 1.1m sq ft available or 1.2% of the local market.

Overall office rental growth slowed significantly in 2016 with CBRE reporting prime rents up just 1.3%, and West End rents falling marginally by 0.8%. This is the first fall since Q1 2010, and was driven by weakness in the Mayfair/St James's market, which fell 6.3%. Other West End markets were static or showed modest growth. One exception was Paddington where rents rose 8.0%.

The investment market saw strong Q1 and Q4 activity, but was relatively quiet in between which meant that activity levels at £13.1bn were 19% down on 2015. The immediate impact of the EU referendum vote was for yields to move out c.25bp to reflect heightened uncertainty and some early forced sales by the open-ended funds which created an initial sharp adjustment. However the market quickly stabilised: tenants have been resilient and the weaker level of sterling has attracted fresh investment interest as demonstrated by the £4.1bn of deals in Q4. West End annual activity at £4.4bn held up better and was only 8% lower than in 2015, seeing a much higher degree of domestic interest, which accounted for 46% of the transactions as opposed to 30% for the market as a whole. There have already been a number of significant transactions in Q1 2017 which suggests that demand remains robust.

Against the current background, projections on the future must be treated with caution. The London office occupier is likely to face additional costs following the rise in business rates introduced from April 2017, and it is widely expected that some financial and associated jobs will move to other cities in the EU. The latter will ultimately depend on the outcome of UK-EU negotiations, but a number of banks have already suggested that several thousand jobs are earmarked to move. Despite these challenges we believe that there is still scope for selective rental growth, although this is unlikely to occur across all our London villages. On average we expect ERV movements across our portfolio of between 0% and -5% in 2017. We have seen our property yields move out 31bp since December 2015, and these may drift out a little further in the current year.

VALUATION

See Appendix 2 for supporting graphs and tables

The Group's investment portfolio was valued at £5.0bn at 31 December 2016, a similar level to last year. The valuation themes were positives from rental growth and our on-site developments, but these were offset by an outward movement in valuation yields. In addition we benefitted from an uplift on 132-142 Hampstead Road NW1 where we had conditionally agreed to sell the property. As a result the valuation would have been flat apart from the additional impact of a rise in Stamp Duty Land Tax in March 2016 that lowered values by around 1%. The net outcome was a valuation deficit for the year of £20.9m, before accounting adjustments of £23.3m (see note 11) giving a total reported deficit of £44.2m. This equated to a marginal underlying valuation decrease of 0.2% which followed a 16.5% increase in 2015. The result was an outperformance when measured against our capital value benchmarks, the IPD Quarterly Index for Central London Offices, which decreased by 0.7%, and the wider IPD All UK Property Index which fell by 1.3%.

By location, our central London properties, which represent 98% of the portfolio, saw an underlying valuation decline of 0.1%, with the West End down 0.7% and the City Borders up by 1.0%. The latter area benefitted from letting progress at the White Collar Factory EC1 and The White Chapel Building E1. The 2% balance of the portfolio is our non-core Scottish holdings and these were down 1.9%.

The portfolio's total property return was 2.9% for 2016 compared to 19.9% in 2015. The IPD Index for total return was 2.6% for Central London Offices and 3.5% for All UK Property. Although we outperformed our more comparable benchmark we underperformed the broader index as a consequence of the higher property yields outside London.

Within the investment portfolio, we were on site at four major developments during the year. Two of these, White Collar Factory EC1 and The Copyright Building W1, will be completed in 2017 and two more, 80 Charlotte Street W1 and Brunel Building W2, are in the early stages of development. In total, these projects were valued at £662m delivering a 4.7% valuation uplift. This outperformance came from strong letting activity above ERVs and the valuers releasing development surpluses as projects neared completion. Accordingly, our two near-term completions were up 14.1%. The two recently commenced developments were marked down 5.9% as our valuers increased the development margin targets for a more uncertain market.

The valuer's estimate of the net rental value of these four developments was £65.4m and at year end £18.3m or 28% of this had been secured through our pre-lets. Since then we have signed two further lettings at £10.7m pa, thereby taking our developments to 44% de-risked. The average lease length on our pre-letting activity is 15.4 years. Capital expenditure required to complete these four developments is £347m. While prime West End office rents declined marginally during the year, our mid-market rental locations, such as Fitzrovia, Victoria and the Tech Belt, continued to grow, albeit more slowly than in recent years. Our rental values, on an EPRA basis, rose by 5.1% and followed 11.8% in 2015. During 2016 the West End saw rental growth of 5.5% and the City Borders 4.4%.

On an EPRA basis the portfolio's initial yield was 3.4% which will rise to a 'topped-up' 4.1% following expiry of rent free and half rent periods and contractual rental uplifts. For the previous year, these figures were 3.1% and 3.8%, respectively. The true equivalent yield at year end was 4.83%, a 31bp outward movement over the year and follows 21bp of yield tightening in 2015. This movement was the first outward yield shift since 2009 and was mainly in the second half of the year, when the equivalent yield moved out 25bp. While the economy remained resilient during the year, especially in the second half, the outlook post the referendum remains uncertain and as a consequence buyers are seeking higher yields to reflect the greater potential risks to the rental outlook.

As noted in our 2015 Annual Report we expected a greater proportion of our future return to come from income, developments and asset management. This proved to be the case. As set out in the Portfolio Management section, our asset management initiatives also had some notable success. The outcome was a strong uplift in our annualised contracted rent. Our contracted rent rose 9.6%, from £137.1m to £150.3m, despite disposals lowering income by £6.7m and no income-producing acquisitions. The portfolio's ERV was also up, to £284.5m. Thus, the rental reversion at year end was £134.2m. Of this potential growth £52.0m is contractual from fixed uplifts, the expiry of rent free periods or pre-lets. Adding this to the current income takes our 'topped-up' rent to £202.3m which is 17.2% higher than last year.

The majority of the balance of the reversion comes from letting vacant space, either currently available to occupy or under construction. This totalled £58.4m. The main elements of this are the ERVs of our two recent development starts: 80 Charlotte Street and Brunel Building, which total £41.2m. These properties will not be delivered until 2019.

The final component comes from lease reviews and renewals. We made excellent progress in capturing some of this in 2016, but there is still a further £23.8m of potential income to come.

PORTFOLIO MANAGEMENT

See Appendix 3 for supporting graphs and tables

In 2016 the Group achieved a new annual letting record of £31.4m, surpassing the previous 2015 record by 16%. Activity was evenly spread between the first and second halves and, on average, exceeded the December 2015 ERV by 6.3%, as can be seen in the table below. This reflected the amount of space we had available, predominantly either being developed or refurbished, the suitability of our product and the success of our letting campaigns. As a result we start the year again with a low existing vacancy rate, but with considerable latent letting opportunity in our development pipeline.

Letting activity 2016

	Area sq ft	Income £m pa	Performance against Dec 15 ERV	
			Open market	Overall[1]
H1	267,700	16.7	6.5%	6.3%
H2	279,800	14.7	9.0%	6.3%
2016	**547,500**	**31.4**	**7.7%**	**6.3%**

[1] Includes short-term lettings at properties earmarked for redevelopment

Last year started well with the pre-let of the whole office element of The Copyright Building W1 on a 20-year lease at an average rent of £86 per sq ft. We continued to let floors of the White Collar Factory EC1 throughout the year, achieving a new record rent of £67.50 per sq ft on the tower. We launched The White Chapel Building leasing campaign in Q2 and the property is now 78% let. The refurbishment at 20 Farringdon Road EC1 is also largely let. On our investment properties we achieved a new rental high at the Johnson Building EC1, and let the last available floor at 1-2 Stephen Street W1.

Principal lettings in 2016

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min / fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
The Copyright Building W1	Capita	87,150	86.00[1]	7.4	-	20	-	34
White Collar Factory EC1	Adobe	28,600	63.50	1.8	70.00	11.5	-	18
Angel Square EC1	Expedia	9,850	53.50	0.5	57.50	5.3	2	2
Middlesex House W1	GHA Services	4,360	70.00	0.3	72.50	10	5	6
Q2								
White Collar Factory EC1	Capital One	29,500	65.00	1.9	75.35	11	-	17
The White Chapel Building E1	Perkins & Will	26,400	45.00	1.2	49.50	10	5	8, plus 7 if no break
20 Farringdon Road EC1	The UK Trade Desk	9,400	62.50	0.6	65.65	10	5	5
20 Farringdon Road EC1	Okta	10,000	62.50	0.6	-	10	5	6
Q3								
The White Chapel Building E1	GDS	54,700	52.00	2.8	-	10	5	8, plus 10 if no break
White Collar Factory EC1	Spark44	22,900	67.50	1.5	70.00	15	5 & 11	9, plus 6 plus 6 if no break
The White Chapel Building E1	Unruly	24,200	45.00	1.1	49.50	10	5	9, plus 9 if no break
The White Chapel Building E1	Reddie & Grose	20,700	49.50	1.0	52.50	10	-	18
Johnson Building EC1	Audio Network	10,800	63.50	0.7	-	10	5	9, plus 8 if no break
The White Chapel Building E1	Shipowners' Club	13,100	47.50	0.6	-	10	-	19
78 Whitfield Street W1	Global Eagle Entertainment	9,500	65.00	0.6	-	10	5	6
White Collar Factory EC1	Runpath	9,800	64.00	0.6	-	10	5	9, plus 6 if no break
Q4								
20 Farringdon Road EC1	Indeed	18,200	56.50	1.0	-	5	3	5
1-2 Stephen Street W1	Iron Web	11,100	75.00	0.8	-	10	5	9, plus 9 if no break
White Collar Factory EC1	Brainlabs Digital	11,900	62.50	0.7	-	11	-	17
50 Oxford Street W1	The Fragrance Shop	1,000	-	0.4	-	10	-	9

[1] Excludes reception area.

Active asset management is one way we capture growth. During 2016 we concluded lease renewals and reviews on 419,400 sq ft achieving rents of £19.5m, 40.5% above previous levels and 8.9% above December 2015 ERV. In addition, we regeared leases on 174,600 sq ft adding a further £9.1m of income 59.9% above the previous income and 16.3% above ERV. In total this covered 594,000 sq ft or 12% of our completed portfolio.

Asset management 2016

	Area sq ft	Previous rent £m pa	New rent £m pa	Change	Income v Dec 15 ERV
Rent reviews	395,500	12.91	18.32	+41.9%	+9.8%
Lease renewals	23,900	0.93	1.13	+21.3%	-3.4%
Lease regears	174,600	5.67	9.07	+59.9%	+16.3%
Total	**594,000**	**19.51**	**28.52**	**+46.1%**	**+11.1%**

Among these transactions we secured significant uplifts on rent reviews at 20 Farringdon Road EC1, Angel Building EC1 and 1-2 Stephen Street W1 where we achieved rents of c.£50, £60 and £70 per sq ft, respectively. We also completed notable lease regears at 60 Whitfield Street W1 and 1 Oliver's Yard EC1. At the former, we provided a capital payment in return for improvements, our current income will increase from £1.6m to £2.2m in 2018, and the lease on 36,200 sq ft has been extended from 2018 to 2029. At the latter we have increased the income on 50,300 sq ft from £1.39m to £2.34m and extended the lease by three years to 2021, with the tenant retaining a break at 2018 on 17% of the space. Both these deals exceeded ERV and improved certainty of income.

At the year-end our EPRA vacancy rate was 2.6% despite a number of completions. We started 2016 with an exceptionally low 1.3% vacancy rate which peaked at 3.3% in November 2016. We have a number of properties completing this year, which could see our vacancy rate rise to 4.5% if we achieve no further lettings.

Lettings in 2017

Since the year end we have pre-let the 13th floor at The White Collar Factory EC1 to Adobe, who had already taken two other floors in the tower. The new letting comprises 14,900 sq ft for a rent of £1.0m pa or £67.50 per sq ft. It is for 11.5 years and incorporates a minimum uplift with a cap and a floor on rental review in five years' time. Adobe received incentives equivalent to 22 months rent free.

We have also made our first pre-letting at 80 Charlotte Street W1, where Arup have agreed to take 133,600 sq ft of offices in the main building taking it to 41% pre-let. They have signed a 20 year unbroken lease at an initial rent of £9.74m, which is equivalent to £75 per sq ft on the main office floors. This income stream will rise by 2.25% pa for the first fifteen years of the lease at which point there is an upward only open market review. After allowing for the impact of the indexation the average rent over the first five years is in line with our December 2016 ERV for the lower floors. In return Arup is receiving incentives equivalent to 33 months rent free. They also have an option to take another 40,700 sq ft.

As reported earlier, the Group has regeared a number of leases with the Expedia group and Cancer Research UK at Angel Building, Islington EC1. Expedia will occupy at least 231,400 sq ft or 93% of the office space from 2020 and has extended its tenure from 2021 to 2030. There are minimum rental uplifts on reviews in 2020 and 2021. In return Expedia will receive incentives equivalent to 21 months rent free. The income from the total office element of the building will rise from £13.3m to a minimum of £15.0m in 2020.

PROJECTS

See Appendix 4 for supporting graphs and tables

Derwent London is principally a property investor and asset manager, with developments representing 13% of our portfolio by value. These come with a major £363m capital expenditure commitment and an element of operational risk resulting from our approach of starting schemes speculatively. However we do not commit to projects that would unduly stress the balance sheet and only start schemes where we believe the risk/reward ratio is attractive. We have a track record of de-risking our projects as they progress, and our potential profit margins allied to a long-term investment approach allow us significant flexibility on lease terms. Our success in this regard can be seen in the substantial progress we have made in pre-letting 292,000 sq ft or 73% of our 2017 deliveries, which compares to 22% in December 2015.

Major developments pipeline

Property	Area sq ft	Delivery	Capex to complete £m	Comment
Projects on site				
White Collar Factory, Old Street Yard EC1	293,000	Q1 2017	11	276,000 sq ft offices, 9,000 sq ft retail, 8,000 sq ft residential – 70% pre-let overall
The Copyright Building, 30 Berners Street W1	107,000	H2 2017	24	87,000 sq ft offices and 20,000 sq ft retail – 81% pre-let overall
Brunel Building, 55 North Wharf Road W2	240,000	H1 2019	99	Offices
80 Charlotte Street W1	380,000	H2 2019	213	321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail - 35% pre-let overall
	1,020,000		**347**	
Other major planning consents				
1 Oxford Street W1	275,000			204,000 sq ft offices, 37,000 sq ft retail and 34,000 sq ft theatre
Monmouth House EC1	125,000			Offices, workspaces and retail
	400,000			
Planning applications				
19-35 Baker Street W1	293,000			Planning application submitted for 206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail
Grand Total	**1,713,000**			

The delivery of construction projects across the London market continues to be tested this cycle which has led to some delays. White Collar Factory is nearing completion a few months behind our original schedule. The 237,000 sq ft tower building is 80% pre-let with only the top two and a half floors available. The half floor is under option until six months after practical completion. We are now focused on marketing the lower rise buildings surrounding the new open space. Currently we have pre-let 15,600 sq ft of this office space, and 9,000 sq ft of retail is conditionally under offer, which leaves 23,400 sq ft of lower rise offices and the 8,000 sq ft residential space still to let. The ERV of the project is £16.9m and the remaining capital expenditure is £11m.

Last year we announced the pre-letting of the office element of The Copyright Building for twenty years at an average rent of £86 per sq ft thereby largely de-risking the project. We have just started to market the remaining 20,000 sq ft of retail and restaurant space. The project remains on course for delivery in the second half of this year. The ERV of the building is £7.3m net, and the remaining capital expenditure is £24m.

We considered delaying Brunel Building following the Brexit vote. In the event the Group made the decision to continue work due to the development's merits and good levels of occupier interest. This canalside building will provide column-free floors and is located opposite a Crossrail station. Though it caught up a bit in 2016, Paddington has lagged much of central London this cycle and has seen limited development activity. We believe current rental levels are attractive, and the opening of Crossrail in 2018 will significantly enhance eastward public transport links to central West End and the City. Outstanding capital expenditure totals £99m and the ERV is £14.8m net or £62.50 per sq ft. We estimate our breakeven rent at c.£46 per sq ft.

80 Charlotte Street is our largest current project and demolition is underway. The space is designed to be multi-let and comprises three buildings. The largest is 309,000 sq ft of offices and 14,000 sq ft retail. There is an adjoining 14,000 sq ft private residential building and a smaller property opposite at 53-65 Whitfield Street comprising 12,000 sq ft of offices, 21,000 sq ft private residential and 10,000 sq ft affordable residential. With outstanding capital expenditure of £213m and an ERV of £26.4m, this is our most significant current project. The ERV is based off an average office rent of c.£80 per sq ft, whereas we estimate our breakeven rent at c.£58 per sq ft. Since the year end, we have pre-let 133,600 sq ft of the largest building to Arup at a rent of £9.7m. More details of this transaction are discussed under Portfolio Management above, and under Investment Activity below.

During 2016 we had an unusually high level of refurbishment activity, principally due to our opportunistic acquisition of The White Chapel Building E1 with vacant possession. In addition we had projects at 20 Farringdon Road EC1, 78 Whitfield Street W1 and 78 Chamber Street E1. Adjusting for the joint venture interest at Chamber Street these projects totalled 326,000 sq ft and all were completed during the year. They are now 71% let producing £11.7m of rent. The remaining 93,000 sq ft has an ERV of £4.4m. In the current year we will consider whether to commit to Phase 2 at The White Chapel Building, which comprises 85,000 sq ft of ground and lower ground floor space.

Longer term we have planning consent for two well-located schemes including 1 Oxford Street W1, the site over the eastern Tottenham Court Road Crossrail station. The other major scheme located immediately south of the White Collar Factory is Monmouth House EC1, where last year we received consent to replace two tired properties with a new 125,000 sq ft project: this represents an 81% uplift in area. We have flexibility as to when to start both projects. Beyond that we believe another 25% of our portfolio, or 1.5m sq ft, has redevelopment or refurbishment potential which means that our overall portfolio remains rich with opportunity.

INVESTMENT ACTIVITY

We comfortably exceeded our initial sales target during the year with virtually all our transactions in the second half. The three major office property sales comprised investments where we considered that the potential to add further significant short term value was limited. At Balmoral Grove N7 we had previously conditionally sold the property for residential redevelopment. All these conditions, including receipt of planning consent, were achieved during the year. We retain a potential overage interest in this property as well as at Riverwalk House SW1, which was sold in 2012 and where the residential development was completed in 2016. Any future profits will be dependent on the success of each scheme, and currently no value is attributed to these potential gains in our balance sheet. Earlier in the year we sold our remaining available residential units at The Corner House, 73 Charlotte Street W1, and Queens W2. In total we raised £224.7m of cash from sales in 2016.

Principal disposals 2016

Property	Date	Area sq ft	Net proceeds £m	Net proceeds £ psf	Net yield to purchaser %	Rent £m pa
75 Wells Street W1	Q3	34,800	40.3	1,160	2.9	1.3
Balmoral Grove N7	Q4	67,000	23.9	n/a	n/a	0.0
Tower House WC2	Q4	53,700	65.9	1,230	4.3[1]	3.1[1]
120-134 Tottenham Court Road W1 (retail and 330 room hotel)	Q4	26,400[2]	68.9	n/a	3.1	2.3
Total	**-**	**181,900**	**199.0**	**n/a**	**-**	**6.7[1]**

[1] Includes rental top-ups for vacant space and rent free periods. [2] Retail space only

As there were few acquisition opportunities that met our criteria during the year we acquired only one property, which was the long leasehold interest in one of the lower ground floors at The White Chapel Building. This has given us the option to refurbish Phase 2 as discussed above.

Principal acquisition 2016

Property	Date	Area sq ft	Total cost £m	Total cost £ psf	Net yield %	Net rental income £m pa	Net rental income £ psf	Lease length Years
The White Chapel Building E1[1]	Q1	30,500	12.0	395	-	-	-	-

[1] Lower ground floor. Main building purchased in December 2015.

Disposals in 2017

Since the year end we have agreed to sell two office buildings for £327m before costs.

The larger of these was a conditional put and call option to sell 8 Fitzroy Street W1 for £197m. This freehold property comprises 147,900 sq ft let to Arup for a rent of £7.2m. The purchaser is Arup and the transaction formed part of the pre-letting negotiations at 80 Charlotte Street W1 discussed above. The disposal price reflects a net initial yield of 3.4% and a premium of 2.8% before costs to its December 2016 value. Completion is expected on 23 June 2017.

The second disposal is the freehold of 132-142 Hampstead Road NW1 which we have agreed to sell to the Secretary of State for Transport for £130m. This property provides 219,700 sq ft and is let to University

College London for £1.7m. We acquired the property in 2007 and achieved planning for 233,000 sq ft of offices and 38 residential units. The new offices were designed to be our first White Collar Factory, but we were unable to carry our plans forward due to the proposals to build HS2 announced in 2012. The December 2016 book value of £115m did not reflect the full benefit of the very valuable planning consent.

FINANCE REVIEW

See Appendix 5 for supporting graphs and tables

Financial overview

In a year dominated by unexpected political events and increased uncertainty, Derwent London has reported further recurring earnings growth, a step change in the proposed final dividend and a small increase in net asset value backed up by a very strong financial position.

After several years where large valuation uplifts provided substantial net asset value increases for the Group, in 2016 the net asset value attributable to equity shareholders marginally increased by £10m, with the IFRS net asset value (NAV) remaining at the same rounded £4.0bn reported a year ago. The combination of a maturing London office property cycle and the EU referendum vote, among other things, gave rise to an outward yield movement on our portfolio averaging 31bp in 2016. This was partially offset by the positive impact of continuing rental growth, record letting successes and strong rent review settlements but the portfolio valuation was down as a result in H2 2016. The fall was lower than we had anticipated in the immediate aftermath of the June EU vote and was more than offset by retained recurring earnings. We have also been able to demonstrate that our carrying values remain supported by transactional evidence with £208m of property investment disposals in H2 2016 at an average price 3.7% above December 2015 book values.

These property sales had another benefit as available undrawn facilities increased by the year end to the extent that our committed development pipeline was fully funded at December 2016.

Earnings per share and profit before tax on an IFRS basis include fair value movements arising from the revaluation of investment properties and interest rate hedging instruments and can therefore be volatile from year to year. Those fair value movements have moved from a net £657.6m uplift in 2015 to a £36.8m downward movement in 2016 with the result that the IFRS profit before tax was £54.5m in 2016, down from £779.5m in 2015. In common with best practice in our sector, alternative performance measures are also provided to supplement IFRS guidance based on the recommendations of the European Public Real Estate Association ("EPRA"). EPRA Best Practice and Policy Recommendations (BPR) have been adopted widely throughout this report and are often used within the business when considering our recurring operational performance as well as matters such as dividend policy and elements of our Directors' remuneration.

EPRA NAV per share on a diluted basis was up by 16p to 3,551p from 3,535p in 2015.

EPRA earnings increased more strongly with a 8.9% rise to £85.7m (2015: £78.7m) and EPRA earnings per share increased by 7.9% to 76.99p. Building on the substantial 31% rise in recurring profits in 2015 and with our pipeline out to 2019 now substantially de-risked due to recent lettings, we believe that this progress justifies the decision to propose a 25% increase in the final dividend. The total annual dividend remains 1.5 times covered by EPRA earnings per share at this level.

Our gearing ratios have fallen again too, though only marginally. They now stand at the lowest level for many years. The Group's loan-to-value ratio was 17.7% at 31 December 2016 (2015: 17.8%) and NAV gearing was down to 22.6% from 22.8% in 2015. Interest cover has also risen again to 370% in 2016 against 362% in 2015.

The property sales and letting progress announced with these results are expected to lead to a reduction in debt levels of £327m by June 2017. They also further de-risk the pipeline and provide additional long-dated income for the Group. The net impact of these transactions is expected to add 56p per share to the net asset value. Combined with the low level of existing gearing, the Directors are therefore proposing a special dividend of 52p per share to be paid along with the final dividend in June 2017.

See Appendix 5 for financial highlights table and portfolio value, net assets and gearing graph

Net asset value

The net asset value of the Group was almost unchanged in 2016, retained profits after dividends being almost exactly matched by the downward fair value movements on our property portfolio and interest rate swaps. IFRS net asset value increased marginally to £3,999.4m against £3,995.4m in 2015 and EPRA diluted NAV per share increased to 3,551p per share at 31 December 2016, up from 3,535p a year earlier. The main reason for the increase in EPRA NAV per share during 2016 came from the removal of dilution in relation to our 2019 convertible bonds following the decline in share price during the year to a level below the conversion price of 3,335p. The movements in NAV per share during the year are summarised below compared with the prior year:

	2016	2015
	P	p
Revaluation surplus (including share of joint ventures)	(38)	581
Profit on disposals	7	39
Adjusted profit after tax	77	71
Dividends paid (net of scrip)	(44)	(30)
Interest rate swap termination costs	(8)	(6)
Dilutive effect of convertible bonds	17	(17)
Non-controlling interest	7	(8)
Other	(2)	(3)
	16	627

A detailed reconciliation showing adjustments from the IFRS to EPRA NAV per share is shown in note 22 to the financial statements and explanations of the valuation movement for the year are provided within the Valuation section.

Excluding joint ventures the total revaluation deficit for the year was £44.2m (or 0.9% of the portfolio value) of which £1.6m was in respect of apartments under construction held as trading stock and £5.5m related to the portion of 25 Savile Row W1 that we occupy; the balance of £37.1m related to investment properties. In addition, the Group’s share of the joint venture revaluation surplus was £1.8m.

As a REIT, we generally do not provide for deferred tax on upward property revaluations. The main exception is for the properties that we hold around Baker Street W1 in a joint venture with the Portman Estate (TPE). The split of ownership is 55%/45% in our favour and we have operational control. As a result, we consolidate these properties and provide for deferred tax on our share of the 45% outside the REIT regime as well as recognising a non-controlling interest in relation to TPE’s share. The value of these properties declined in 2016 which is the main reason behind the reduction in the deferred tax liability to £3.1m (2015: £5.5m) and the non-controlling interest to £67.1m (2015: £72.9m).

It is also worth noting that the accrued income, which arises as a result of the ‘straight-lining’ of rental income under IAS17 and SIC15, reached £116.9m (2015: £97.0m) by the year end. This takes account of rent-free and reduced rent periods, other tenant incentives and fixed future rental uplifts. Part of the overall portfolio fair value is allocated to this balance, the overall split being as follows:

	Dec 2016	Dec 2015
	£m	£m
Investment property	4,803.8	4,832.3
Owner occupied property	34.2	36.1
Trading property	11.7	12.3
Accrued income	116.9	97.0
Headlease liabilities gross-up	(23.9)	(23.2)
Fair value of property portfolio	4,942.7	4,954.5

In addition, the Group owns £37.8m of properties in two joint ventures, this figure representing our 50% share of those properties at fair value. The net carrying value of the investments as at 31 December 2016 was £36.0m (2015: £30.7m).

Medium and longer term interest rates fell in the UK during the year with very significant declines around the middle of 2016 followed by some subsequent correction. The mark-to-market cost of our interest rate swaps would have risen accordingly but, as a result of £9.0m paid to terminate or re-profile swaps during the year, it was reduced from £17.6m to £17.3m. The decline in longer term rates also fuelled a £24.5m increase in the fair value adjustments for our long-term fixed rate debt and bonds but this was almost matched by a £22.0m reduction in respect to the 2019 convertible bonds, the latter movement due to the lower share price. After taking these movements into account, diluted EPRA triple net asset value fell marginally to 3,450p per share (2015: 3,463p).

Income statement

It was noted in our 2015 finance review that we were progressing through a long London office property cycle and that, as that cycle matures, the recurring income component of our total return business model should increase. Capturing rental reversion and growing earnings have been among our main themes in 2016, balanced by our development activity and our property disposals.

Gross rental income increased by 4.8% to £155.4m and net rental income by 5.2% to £145.9m. With lower levels of trading activity on residential apartments in 2016 and a £1.6m write-down on the trading stock under development at 80 Charlotte Street W1, net property and other income was only marginally higher at £149.2m in 2016 against £148.6m in 2015. The prior year figure also included £3.7m of compensation received from contractors on schemes delivered late.

In a year when net property dispositions were higher than usual, rental income was down £5.1m due to disposals and only increased by £0.3m due to acquisitions. The main rent increases came from lettings and reviews which added £21.1m while rent reductions from lease breaks, expiries and voids totalled £5.3m and with £3.9m from schemes commencing.

See Appendix 5 for gross property income graph

Administrative expenses increased by 3.0% to £30.9m in 2016 but the trend is down as the reported figure takes account of a bonus under-provision in 2015 of £0.9m.

Our EPRA cost ratios were similar to the previous year at 24.0% (2015: 24.3%) of adjusted gross rental income including direct vacancy costs and 22.4% (2015: 22.3%) excluding those costs. As in previous years, no overheads or property costs were capitalised.

See Appendix 5 for cost ratios table

In more uncertain market conditions, investor appetite for London offices has held up more strongly than most expected and we were able to book a profit of £7.5m on disposal proceeds of £210.6m in 2016, most of which came after the EU referendum vote. In addition, there was a £1.9m trading profit on the sale of apartments during the year.

Total finance costs reduced from £35.2m in 2015 to £27.8m in 2016 after capitalising £13.0m of interest, £4.7m of which related to phase 1 of The White Chapel Building up to the date of practical completion in October 2016. Because it was acquired as a vacant property in December 2015, interest was capitalised on the purchase price as well as the subsequent development costs. The rent already contracted from the building is £7.0m so, post practical completion when the capitalisation of interest ceased, the net impact upon future earnings is expected to be positive.

Following the sale of the Grafton Hotel property in December 2016, we decided to break £10m of interest rate swaps and to reduce the rate payable under a further £135m of swaps. This cost £6.6m in total. With £2.4m paid to defer a £70m forward start swap by a further 12 months, total swap breakage costs were therefore £9.0m in 2016.

After allowing for the revaluation deficit on our property portfolio, the overall result was an IFRS profit for the year of £53.6m, down substantially from the £777.2m reported for the year ended 31 December 2015. Adjusting for profits on disposal, fair value movements and other items which are non-recurring in nature, EPRA earnings increased by 8.9% from £78.7m in 2015 to £85.7m for the year ended 31 December 2016.

A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 22.

See Appendix 5 for EPRA earnings graph

After removing the impact of development activity, acquisitions and disposals, EPRA like-for-like gross rental income increased by 5.1% during the year with net property income on a similar basis up by 5.7%. A full analysis is shown in the table below.

See Appendix 5 for EPRA like-for-like rental income table

Taxation

The corporation tax charge for the year ended 31 December 2016 increased to £2.0m in 2016 from £1.9m in the previous year, due to the profits arising on the sale of residential apartments that were held as trading stock and therefore outside the REIT tax environment.

The movement in deferred tax liabilities for the year was a credit of £2.4m. This was made up of £1.1m (2015: £0.4m debit) passing through the income statement due to the change in tax rates and the valuation impact for non-REIT Group properties and £1.3m in relation to the owner-occupied property at Savile Row.

In addition, and in accordance with our status as a REIT, £5.6m of tax was withheld from shareholders on property income distributions and paid to HMRC during the year. The Company also made significant contributions to the UK public finances on a wide range of taxes borne and collected during the year.

We have recently issued a statement of tax principles and this is included on our website at www.derwentlondon.com. The statement explains our approach to taxation, founded on the principle of retaining our low risk tax status with HMRC.

A fully funded committed pipeline

The combination of property disposals and £105m of new debt capacity means that the Group's committed pipeline of projects was fully funded as at 31 December 2016. Available undrawn facilities and cash totalled £383m and our committed pipeline stood at £363m at 31 December 2016.

See Appendix 5 for graph of committed capital expenditure on major projects and available funds

Our refinancing activities during 2016 were focused on arranging some more long-term fixed rate debt in the capital markets to further diversify our funding sources, to extend our overall debt maturities and fix into attractive long-term rates. We also extended both our revolving bank facilities and reduced the mark-to-market exposure on our interest rate swaps.

In May 2016, we drew down £105m of new 12 and 15-year US private placement notes that were arranged in February 2016. Full details were provided in our 2015 report and so are not repeated here but we were very pleased to welcome three new lending relationships to the Group.

At the year end, the Group had £613m of fixed rate debt, including £150m of convertible bonds due in 2019, with a weighted average interest rate payable of 4.0%. This rate takes account of the £175m 2026 bonds at 6.5% issued by London Merchant Securities in 2001. We have considered refinancing these to lower our overall cost of debt but concluded for now that such arrangements would be neutral at best from a net present value standpoint. It remains a matter for future consideration.

Our principal bank facilities, which are fully revolving and unsecured, included two one-year extension options on top of their original five-year terms. The first extension option for our £75m Wells Fargo facility was exercised just before the middle of the year. This facility now has a term date of July 2021 with the second one-year extension option remaining, subject to the usual consents. We also extended the maturity of the £550m unsecured revolving bank facility, £450m of the facility amount now falling due in January 2022. The remaining £100m retains a January 2021 repayment date but we have agreed an accordion option for this portion which could extend the effective repayment date to January 2022.

These steps have helped us take the weighted average maturity of our debt to 7.7 years at December 2016, up from 7.3 years a year earlier.

We have also reduced the interest rates payable under our swaps to compensate for the higher rates payable under the long dated USPP notes when compared to our marginal bank loan rates of 1.5%. In April 2016, we extended the maturity of a £70m interest rate swap from April 2019 to April 2023 at no cost, thereby reducing the rate payable from 2.00% to 1.74%. Then, in December, we cancelled £10m of swaps and re-set the rates payable under a further £135m for an overall cost of £6.6m. As a result, at December 2016 the Group held £243m of swaps at an average rate of 1.82% compared with £253m at a rate of 2.44% a year earlier. The £70m forward start swap has also been deferred to March 2017 at a cost of £2.4m.

Taking all of this into account, the overall interest rate paid on our debt at 31 December 2016 fell slightly to 3.65% (2015: 3.68%). Under IFRS accounting, an additional interest charge is taken against earnings to unwind the equity component of convertible bonds; allowing for this takes the notional interest rate to 3.90% at the year-end (2015: 3.93%).

The proportion of our debt that is fixed or swapped into fixed rates was 95% as at 31 December 2016 excluding the £70m forward start swap. The proportion increased over the year due to the additional fixed rate debt arranged and the property disposals which occurred towards the end of the year.

See Appendix 5 for tables of debt facilities, debt summary and gearing and interest cover ratio

Net debt and cash flow

Capital expenditure in 2016 was our highest to date at £213.5m including capitalised interest of £13.0m. We spent £18.0m on property acquisitions during the year, almost entirely relating to The White Chapel Building, £6.0m of which was Stamp Duty Land Tax in connection with the acquisition of the main part of the building in the previous year. As a result, the cash invested in the portfolio marginally exceeded disposal proceeds of £224.7m from the sale of properties.

With the net cash from operating activities increasing to £77.7m from £76.0 in 2015, after allowing for a £5.3m incentive paid to Capita and their existing landlord to enable them to lease office space at the Copyright Building, net debt was almost unchanged at December 2016 from a year beforehand at £904.8m (2015: £911.7m). This included a higher cash balance than usual following the sale of the Grafton Hotel, a property charged to one of our lenders. We were in the course of documenting the substitution of new replacement security at the year end and, accordingly, £10m of cash was held in a restricted bank account. It will be released once the new security is in place.

See Appendix 5 for net debt table and graphs showing maturity profile of debt facilities and fixed rates and swaps

Dividend

With the 25% increase in recurring earnings per share in 2015 followed by a 7.9% increase in 2016, dividend cover has increased significantly in the last two years. The final dividend was increased by 10% in 2015 but, now that we have let the main part of the development pipeline through to the end of 2018 and with continuing low vacancy rates in our portfolio and the expectation of further growth in recurring earnings in the next few years, the Board has recommended a 25.0% increase in the proposed final dividend to 38.50p per share for payment to shareholders on the register on 5 May 2017 to be paid on 9 June 2017. 32.70p will be paid as a PID and the balance of 5.80p as a conventional dividend. The interim and final dividend for the year will be 52.36p per share, an increase of 20.6% over last year. There will not be a scrip dividend alternative. It is also intended that the 2017 interim dividend will be increased by 25%.

In addition, following the value-enhancing transactions announced with these results and taking account of the impact upon our already low gearing, a special dividend of 52.00p per share is being proposed to be paid at the same time as the final dividend in June 2017.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the report of the Remuneration Committee 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 that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 that 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 applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 report of the Remuneration Committee 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.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the Directors confirm that to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report 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.

On behalf of the board

John D. Burns
Chief Executive Officer
28 February 2017

Damian M.A. Wisniewski
Finance Director

GROUP INCOME STATEMENT

	Note	**2016 £m**	2015 £m
Gross property and other income	5	**193.7**	204.9
Net property and other income	5	**149.2**	148.6
Administrative expenses		**(30.9)**	(30.0)
Revaluation (deficit)/surplus	11	**(37.1)**	650.0
Profit on disposal of investment property	6	**7.5**	40.2
Profit from operations		**88.7**	808.8
Finance income	7	**-**	0.1
Finance costs		**(27.8)**	(34.9)
Loan arrangement costs written off		**-**	(0.3)
Total finance costs	7	**(27.8)**	(35.2)
Movement in fair value of derivative financial instruments		**0.3**	7.6
Financial derivative termination costs	8	**(9.0)**	(6.4)
Share of results of joint ventures	9	**2.3**	4.6
Profit before tax		**54.5**	779.5
Tax charge	10	**(0.9)**	(2.3)
Profit for the year		**53.6**	777.2
Attributable to:			
- Equity shareholders		**58.7**	766.2
- Non-controlling interest		**(5.1)**	11.0
		53.6	777.2
Earnings per share	22	**52.73p**	694.53p
Diluted earnings per share	22	**52.59p**	668.73p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2016 £m**	2015 £m
Profit for the year		**53.6**	777.2
Actuarial (losses)/gains on defined benefit pension scheme		**(2.1)**	0.7
Revaluation (deficit)/surplus of owner-occupied property	11	**(5.5)**	1.4
Deferred tax credit/(charge) on revaluation	18	**1.3**	(0.1)
Other comprehensive (expense)/income that will not be reclassified to profit or loss		**(6.3)**	2.0
Total comprehensive income relating to the year		**47.3**	779.2
Attributable to:			
- Equity shareholders		**52.4**	768.2
- Non-controlling interest		**(5.1)**	11.0
		47.3	779.2

GROUP BALANCE SHEET

	Note	**2016 £m**	2015 £m
Non-current assets			
Investment property	11	**4,803.8**	4,832.3
Property, plant and equipment	12	**38.1**	39.1
Investments	13	**36.0**	30.7
Pension scheme surplus		**-**	1.1
Other receivables	14	**109.1**	90.7
		4,987.0	4,993.9
Current assets			
Trading property	11	**11.7**	10.5
Trade and other receivables	15	**38.5**	52.7
Cash and cash equivalents	20	**17.7**	6.5
		67.9	69.7
Total assets		**5,054.9**	5,063.6
Current liabilities			
Trade and other payables	16	**110.0**	124.0
Corporation tax liability		**1.6**	1.7
Provisions		**0.4**	0.7
		112.0	126.4
Non-current liabilities			
Borrowings	17	**922.5**	918.2
Derivative financial instruments	17	**17.3**	17.6
Provisions		**0.3**	0.5
Pension scheme deficit		**0.3**	-
Deferred tax	18	**3.1**	5.5
		943.5	941.8
Total liabilities		**1,055.5**	1,068.2
Total net assets		**3,999.4**	3,995.4
Equity			
Share capital		**5.6**	5.6
Share premium		**188.4**	186.3
Other reserves		**950.4**	952.9
Retained earnings		**2,787.9**	2,777.7
Equity shareholders' funds		**3,932.3**	3,922.5
Non-controlling interest		**67.1**	72.9
Total equity		**3,999.4**	3,995.4

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2016	5.6	186.3	952.9	2,777.7	3,922.5	72.9	3,995.4
Profit/(loss) for the year	-	-	-	58.7	58.7	(5.1)	53.6
Other comprehensive expense	-	-	(4.2)	(2.1)	(6.3)	-	(6.3)
Share-based payments	-	1.0	1.7	3.3	6.0	-	6.0
Dividends paid	-	-	-	(48.6)	(48.6)	(0.7)	(49.3)
Scrip dividends	-	1.1	-	(1.1)	-	-	-
At 31 December 2016	**5.6**	**188.4**	**950.4**	**2,787.9**	**3,932.3**	**67.1**	**3,999.4**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2015	5.1	174.0	952.5	1,880.6	3,012.2	63.5	3,075.7
Profit for the year	-	-	-	766.2	766.2	11.0	777.2
Other comprehensive income	-	-	1.3	0.7	2.0	-	2.0
Transfer of owner-occupied property	-	-	6.9	(6.9)	-	-	-
Share-based payments	-	1.3	1.6	2.6	5.5	-	5.5
Bond conversion	0.5	-	(9.4)	179.5	170.6	-	170.6
Dividends paid	-	-	-	(34.0)	(34.0)	(1.6)	(35.6)
Scrip dividends	-	11.0	-	(11.0)	-	-	-
At 31 December 2015	5.6	186.3	952.9	2,777.7	3,922.5	72.9	3,995.4

GROUP CASH FLOW STATEMENT

	Note	**2016 £m**	2015 £m
Operating activities			
Property income		**147.1**	145.6
Property expenses		**(18.0)**	(11.7)
Cash paid to and on behalf of employees		**(21.8)**	(21.5)
Other administrative expenses		**(5.6)**	(5.2)
Interest received		**-**	0.1
Interest paid	7	**(22.0)**	(31.4)
Other finance costs		**(2.3)**	(3.0)
Other income		**2.4**	3.1
Tax paid in respect of operating activities		**(2.1)**	-
Net cash from operating activities		**77.7**	76.0
Investing activities			
Acquisition of investment properties		**(18.0)**	(246.2)
Capital expenditure on the property portfolio	7	**(213.5)**	(116.4)
Disposal of investment and trading properties		**224.7**	277.2
Investment in joint ventures		**(3.0)**	-
Purchase of property, plant and equipment		**(4.5)**	(0.9)
Tax received in respect of investing activities		**4.8**	-
Net cash used in investing activities		**(9.5)**	(86.3)
Financing activities			
Drawdown of new revolving bank loan		**-**	45.8
Net movement in revolving bank loans		**(103.9)**	66.3
Repayment of term loan		**-**	(70.0)
Drawdown of private placement notes		**104.3**	-
Financial derivative termination costs		**(9.0)**	(6.4)
Net proceeds of share issues		**1.0**	1.2
Dividends paid to non-controlling interest holder		**(0.8)**	(1.6)
Dividends paid	19	**(48.6)**	(33.3)
Net cash (used in)/from financing activities		**(57.0)**	2.0
Increase/(decrease) in cash and cash equivalents in the year		**11.2**	(8.3)
Cash and cash equivalents at the beginning of the year		**6.5**	14.8
Cash and cash equivalents at the end of the year	20	**17.7**	6.5

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2016 or the year ended 31 December 2015, but is derived from those accounts. The Group's statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2015 and 2016 accounts were unmodified, did not draw attention to any matters by way of an emphasis of matter and did not contain any statement under Section 498 of the Companies Act 2006.

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

Going concern

The Board continues to adopt the going concern basis in preparing these consolidated financial statements. In considering this requirement, the Directors have taken into account the following:

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

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 2015, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 December 2016 year end and had no material impact on the financial statements.

IFRS 10 (amended) – Consolidated Financial Statements;
IFRS 11 (amended) – Joint Arrangements;
IAS 1 (amended) – Presentation of Financial Statements;
IAS 16 (amended) – Property Plant and Equipment;
IAS 19 (amended) – Employee Benefits;
IAS 27 (amended) – Separate Financial Statements;
IAS 28 (amended) – Investments in Associates and Joint Ventures;
IAS 38 (amended) – Intangible Assets;
IAS 41 (amended) – Agriculture; and
Annual Improvements to IFRSs (2012 – 2014 cycle).

Standards and interpretations in issue but not yet effective

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

IFRS 2 (amended) – Share Based Payments;
IFRS 4 (amended) – Insurance Contracts;
IFRS 9 – Financial Instruments;
IFRS 16 – Leases;
IFRIC 22 – Foreign Currency Transactions and Advance Consideration;
IAS 7 (amended) – Statement of Cash Flows;
IAS 12 (amended) – Income Taxes;
IAS 40 (amended) – Investment Property; and
Annual Improvements to IFRSs (2014 – 2016 cycle).

In addition to the above, IFRS 15 Revenue from Contracts with Customers and an amendment to IFRS 15 were in issue at the date of approval of these financial statements but were not yet effective for the current accounting year and have not been adopted early. The Group has not yet completed its evaluation of the effect of their adoption.

3. Significant judgments, key assumptions and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements.

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

A full explanation of these policies is included in the 2016 financial statements.

4. Segmental information

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

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 22. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 95% office buildings* by value at 31 December 2016 (2015: 94%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 5% (2015: 6%) represented a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the strategic report. The majority of the Group's properties are located in London (West End central, West End borders and City borders), with the remainder in Scotland (Provincial).

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

Gross property income

	2016			2015		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	81.4	4.2	**85.6**	82.5	4.0	86.5
West End borders	17.2	-	**17.2**	15.8	0.2	16.0
City borders	48.0	0.2	**48.2**	44.6	0.2	44.8
Provincial	-	5.0	**5.0**	-	4.7	4.7
	146.6	9.4	**156.0**	142.9	9.1	152.0

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

Property portfolio

	2016			2015		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,531.5	141.1	**2,672.6**	2,601.4	180.3	2,781.7
West End borders	408.3	-	**408.3**	422.9	15.9	438.8
City borders	1,665.4	6.4	**1,671.8**	1,555.7	6.4	1,562.1
Provincial	-	97.0	**97.0**	-	96.3	96.3
	4,605.2	244.5	**4,849.7**	4,580.0	298.9	4,878.9
Fair value						
West End central	2,573.9	142.1	**2,716.0**	2,633.8	184.1	2,817.9
West End borders	426.5	-	**426.5**	442.8	15.9	458.7
City borders	1,693.6	6.3	**1,699.9**	1,571.4	6.4	1,577.8
Provincial	-	100.3	**100.3**	-	100.1	100.1
	4,694.0	248.7	**4,942.7**	4,648.0	306.5	4,954.5

A reconciliation between the fair value and carrying value of the portfolio is set out in note 11.

5. Property and other income

	2016 £m	2015 £m
Gross rental income	**155.4**	148.3
Surrender premiums received	**0.1**	-
Other property income	**0.5**	3.7
Gross property income	**156.0**	152.0
Trading property sales proceeds	**12.5**	24.5
Service charge income	**22.8**	25.8
Other income	**2.4**	2.6
Gross property and other income	**193.7**	204.9
Gross rental income	**155.4**	148.3
Ground rent	**(0.7)**	(0.4)
Service charge income	**22.8**	25.8
Service charge expenses	**(24.1)**	(27.7)
	(1.3)	(1.9)
Other property costs	**(7.5)**	(7.3)
Net rental income	**145.9**	138.7
Trading property sales proceeds	**12.5**	24.5
Trading property cost of sales	**(10.6)**	(21.3)
Profit on trading property disposals	**1.9**	3.2
Write-down of trading property	**(1.6)**	-
Other property income	**0.5**	3.7
Other income	**2.4**	2.6
Other costs	**-**	(0.3)
Surrender premiums received	**0.1**	-
Reverse surrender premiums	**(0.1)**	-
Dilapidation receipts	**0.1**	0.7
Net property and other income	**149.2**	148.6

Rental income included £10.3m (2015: £11.6m) relating to rents recognised in advance of cash receipts.

In 2016, other property income related to a rights of light settlement whilst in 2015 it related to compensation received from contractors in connection with the late delivery of pre-let schemes and recognised during the year. Other income in both years related to fees and commissions earned in relation to the management of the Group's properties and was recognised in the Group income statement in accordance with the delivery of services.

6. Profit on disposal of investment property

	2016 £m	2015 £m
Investment property		
Gross disposal proceeds	**210.6**	259.3
Costs of disposal	**(2.6)**	(2.7)
Net disposal proceeds	**208.0**	256.6
Carrying value	**(198.8)**	(215.4)
Adjustment for rents recognised in advance	**(1.7)**	(1.0)
	7.5	40.2

7. Finance income and total finance costs

	2016 **£m**	2015 £m
Finance income		
Other	**-**	0.1
Total finance income	**-**	0.1
Finance costs		
Bank loans and overdraft	**11.8**	12.5
Non-utilisation fees	**1.2**	1.5
Unsecured convertible bonds	**3.8**	4.0
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**7.0**	4.6
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.2**	2.3
Amortisation of the fair value of the secured bonds	**(1.0)**	(1.0)
Finance lease costs	**1.0**	1.1
Other	**0.1**	0.2
Gross interest costs	**40.8**	39.9
Less: interest capitalised	**(13.0)**	(5.0)
Finance costs	**27.8**	34.9
Loan arrangement costs written off	**-**	0.3
Total finance costs	**27.8**	35.2

Total finance costs paid during 2016 were £35.0m (2015: £36.4m) of which £13.0m (2015: £5.0m) was capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. This £13.0m (2015: £5.0m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8. Financial derivative termination costs

In 2016, the Group incurred costs of £6.6m (2015: £4.0m) to terminate and re-coupon interest rate swaps and £2.4m (2015: £2.4m) to defer the start date of a 'forward start' interest rate swap.

9. Share of results of joint ventures

	2016 **£m**	2015 £m
Revaluation surplus	**1.8**	3.6
Other profit from operations after tax	**0.5**	1.0
	2.3	4.6

See note 13 for further details on the Group's joint ventures.

10. Tax charge

	2016 £m	2015 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**1.9**	1.8
Other adjustments in respect of prior years' tax	**0.1**	0.1
Corporation tax charge	**2.0**	1.9
Deferred tax		
Origination and reversal of temporary differences	**(0.9)**	0.4
Adjustment for changes in estimates	**(0.2)**	-
Deferred tax (credit)/charge	**(1.1)**	0.4
Tax charge	**0.9**	2.3

In addition to the tax charge of £0.9m (2015: £2.3m) that passed through the Group income statement, a deferred tax credit of £1.3m (2015: charge of £0.1m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2016 is lower (2015: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £m	2015 £m
Profit before tax	**54.5**	779.5
Expected tax charge based on the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)*	**10.9**	157.8
Difference between tax and accounting profit on disposals	**(1.2)**	(8.3)
REIT exempt income	**(7.8)**	(8.8)
Revaluation deficit/(surplus) attributable to REIT properties	**7.2**	(132.3)
Expenses and fair value adjustments not allowable for tax purposes	**(2.8)**	(3.6)
Capital allowances	**(5.3)**	(3.9)
Other differences	**(0.2)**	1.3
Tax charge in respect of profit for the year	**0.8**	2.2
Adjustments in respect of prior years' tax	**0.1**	0.1
	0.9	2.3

*Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

11. Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
Carrying value						
At 1 January 2016	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9
Acquisitions	12.0	-	12.0	-	-	12.0
Capital expenditure	116.1	75.7	191.8	3.6	2.9	198.3
Interest capitalisation	10.6	2.4	13.0	-	-	13.0
Additions	138.7	78.1	216.8	3.6	2.9	223.3
Disposals	(158.1)	(40.7)	(198.8)	-	(10.2)	(209.0)
Transfers	(10.1)	-	(10.1)	-	10.1	-
Revaluation	(17.4)	(19.7)	(37.1)	(5.5)	-	(42.6)
Write-down of trading property	-	-	-	-	(1.6)	(1.6)
Movement in grossing up of headlease liabilities	-	0.7	0.7	-	-	0.7
At 31 December 2016	**3,959.9**	**843.9**	**4,803.8**	**34.2**	**11.7**	**4,849.7**
At 1 January 2015	3,464.3	576.7	4,041.0	24.8	24.0	4,089.8
Acquisitions	145.8	105.8	251.6	-	-	251.6
Capital expenditure	69.1	44.8	113.9	0.1	6.8	120.8
Interest capitalisation	4.0	0.8	4.8	-	0.2	5.0
Additions	218.9	151.4	370.3	0.1	7.0	377.4
Disposals	(214.7)	(0.7)	(215.4)	-	(20.5)	(235.9)
Transfers to joint venture	(18.7)	-	(18.7)	-	-	(18.7)
Transfers	(9.8)	-	(9.8)	9.8	-	-
Revaluation	566.8	83.2	650.0	1.4	-	651.4
Movement in grossing up of headlease liabilities	-	14.9	14.9	-	-	14.9
At 31 December 2015	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
At 31 December 2016						
Fair value	**4,054.0**	**842.8**	**4,896.8**	**34.2**	**11.7**	**4,942.7**
Lease incentives and costs included in receivables	(94.1)	(22.8)	(116.9)	-	-	(116.9)
Grossing up of headlease liabilities	-	23.9	23.9	-	-	23.9
Carrying value	**3,959.9**	**843.9**	**4,803.8**	**34.2**	**11.7**	**4,849.7**
At 31 December 2015						
Fair value	4,095.2	810.9	4,906.1	36.1	12.3	4,954.5
Revaluation of trading property	-	-	-	-	(1.8)	(1.8)
Lease incentives and costs included in receivables	(88.4)	(8.6)	(97.0)	-	-	(97.0)
Grossing up of headlease liabilities	-	23.2	23.2	-	-	23.2
Carrying value	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9

Reconciliation of fair value

	2016 **£m**	2015 £m
Portfolio including the Group's share of joint ventures	**4,980.5**	4,988.5
Joint ventures	**(37.8)**	(34.0)
IFRS property portfolio	**4,942.7**	4,954.5

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2016 by external valuers on the basis of fair value in accordance with the RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £4,910.7m (2015: £4,924.8m) and other valuers at £32.0m (2015: £29.7m), giving a combined value of £4,942.7m (2015: £4,954.5m). Of the properties revalued by CBRE, £34.2m (2015: £36.1m) relating to owner-occupied property was included within property, plant and equipment, £11.7m (2015: £12.3m) was in relation to trading property and £564.2m (2015: £455.9m), included within investment property, was in relation to development properties.

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

During the year ended 31 December 2016, the Group transferred, at market value, a property previously held for investment to trading property as it became the Group's intention to redevelop and sell this property. Any future revaluation surplus relating to the trading property will be recognised as an adjustment to EPRA net asset value, but, in accordance with IAS 2 Inventories, will not be recognised in the carrying value of the property as trading properties are stated at the lower of cost and net realisable value.

Reconciliation of revaluation (deficit)/surplus

	2016 **£m**	2015 £m
Total revaluation (deficit)/surplus	**(20.9)**	672.2
Share of joint ventures	**(1.8)**	(3.6)
Lease incentives and costs	**(21.5)**	(16.4)
Trading property revaluation surplus	**-**	(0.3)
Other	**-**	(0.5)
IFRS revaluation (deficit)/surplus	**(44.2)**	651.4
Reported in the:		
Revaluation (deficit)/surplus	**(37.1)**	650.0
Write-down in trading property	**(1.6)**	-
Group income statement	**(38.7)**	650.0
Group statement of comprehensive income	**(5.5)**	1.4
	(44.2)	651.4

Historic cost

	2016 £m	2015 £m
Investment property	**2,838.5**	2,732.3
Owner-occupied property	**14.1**	7.7
Trading property	**18.4**	9.9
Total property portfolio	**2,871.0**	2,749.9

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2016	36.1	1.5	1.5	39.1
Additions	3.6	-	1.3	4.9
Depreciation	-	-	(0.4)	(0.4)
Revaluation	(5.5)	-	-	(5.5)
At 31 December 2016	**34.2**	**1.5**	**2.4**	**38.1**
At 1 January 2015	24.8	1.5	0.9	27.2
Additions	0.1	-	0.9	1.0
Depreciation	-	-	(0.3)	(0.3)
Transfers	9.8	-	-	9.8
Revaluation	1.4	-	-	1.4
At 31 December 2015	36.1	1.5	1.5	39.1
Net book value				
Cost or valuation	34.2	1.5	4.8	40.5
Accumulated depreciation	-	-	(2.4)	(2.4)
At 31 December 2016	**34.2**	**1.5**	**2.4**	**38.1**
Net book value				
Cost or valuation	36.1	1.5	3.5	41.1
Accumulated depreciation	-	-	(2.0)	(2.0)
At 31 December 2015	36.1	1.5	1.5	39.1

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in October 2016 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 31 December 2016 was £1.5m (2015: £1.5m). See note 11 for the historic cost of owner-occupied property.

13. Investments

The Group has a 50% interest in two joint ventures, Primister Limited and Prescot Street Limited Partnership ('PSLP'). In 2015, 9 and 16 Prescot Street E1 was transferred from a Group company into PSLP.

	2016 £m	2015 £m
At 1 January	**30.7**	7.4
Transfer from investment property (see note 11)	**-**	18.7
Additions	**3.0**	-
Share of results of joint ventures (see note 9)	**2.3**	4.6
At 31 December	**36.0**	30.7

14. Other receivables (non-current)

	2016 £m	2015 £m
Prepayments and accrued income	**105.4**	87.0
Other	**3.7**	3.7
	109.1	90.7

Prepayments and accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £11.5m (2015: £10.0m), which was included as current assets within trade and other receivables, these amounts totalled £116.9m at 31 December 2016 (2015: £97.0m).

15. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**5.1**	2.4
Other receivables	**2.7**	5.4
Prepayments	**15.5**	14.9
Other taxes	**-**	16.5
Accrued income	**15.2**	13.5
	38.5	52.7

16. Trade and other payables

	2016 £m	2015 £m
Trade payables	**2.0**	0.2
Other payables	**16.7**	39.9
Other taxes	**6.5**	-
Accruals	**45.9**	49.1
Deferred income	**38.9**	34.8
	110.0	124.0

17. Borrowings and derivative financial instruments

	2016		2015	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current liabilities				
1.125% unsecured convertible bonds 2019	**142.9**	**152.4**	140.2	171.7
6.5% secured bonds 2026	**187.9**	**225.6**	188.9	217.2
3.46% unsecured private placement notes 2028	**29.8**	**30.8**	-	-
4.41% unsecured private placement notes 2029	**24.8**	**28.8**	24.8	27.2
3.57% unsecured private placement notes 2031	**74.5**	**75.6**	-	-
4.68% unsecured private placement notes 2034	**74.3**	**88.5**	74.3	81.9
3.99% secured loan 2024	**82.1**	**88.2**	82.0	83.3
Unsecured bank loans	**254.3**	**259.5**	356.8	362.5
Secured bank loans	**28.0**	**28.0**	28.0	28.0
Leasehold liabilities	**23.9**	**23.9**	23.2	23.2
Borrowings	**922.5**	**1,001.3**	918.2	995.0
Derivative financial instruments expiring in greater than one year	**17.3**	**17.3**	17.6	17.6
Total borrowings and derivative financial instruments	**939.8**	**1,018.6**	935.8	1,012.6

	2016	2015
Reconciliation to net debt:		
Borrowings and derivative financial instruments	**939.8**	935.8
Less:		
Derivative financial instruments	**(17.3)**	(17.6)
Cash and cash equivalents	**(17.7)**	(6.5)
Net debt	**904.8**	911.7

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

The fair values of the 3.99% secured loan and the unsecured private placement notes have been determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilts plus the implied margins, and represent Level 2 fair value measurement.

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

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

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

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

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2016 or 2015.

18. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2016	8.7	(3.2)	5.5
(Credited)/charged to the income statement	(1.8)	0.9	(0.9)
Change in tax rates in the income statement	(0.3)	0.1	(0.2)
Credited to other comprehensive income	(1.2)	-	(1.2)
Change in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 31 December 2016	**5.3**	**(2.2)**	**3.1**
At 1 January 2015	7.2	(2.2)	5.0
Charged/(credited) to the income statement	1.4	(1.0)	0.4
Charged to other comprehensive income	0.1	-	0.1
At 31 December 2015	8.7	(3.2)	5.5

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

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

19. Dividend

		Dividend per share				
	Payment date	PID p	Non-PID p	Total p	**2016 £m**	2015 £m
Current year						
2016 final dividend	9 June 2017	32.70	5.80	38.50	**-**	-
2016 interim dividend	21 October 2016	13.86	-	13.86	**15.5**	-
Distribution of current year profit		46.56	5.80	52.36		
Prior year						
2015 final dividend	10 June 2016	30.80	-	30.80	**34.2**	-
2015 interim dividend	22 October 2015	12.60	-	12.60	**-**	14.0
Distribution of prior year profit		43.40	-	43.40		
2014 final dividend	12 June 2015	22.35	5.65	28.00	**-**	31.0
Dividends as reported in the Group statement of changes in equity					**49.7**	45.0
2016 interim dividend withholding tax	14 January 2017				**(1.7)**	-
2015 final scrip dividend	10 June 2016				**(1.1)**	-
2015 interim dividend withholding tax	14 January 2016				**1.7**	(1.7)
2015 interim scrip dividend	22 October 2015				**-**	(3.3)
2014 final scrip dividend	12 June 2015				**-**	(7.7)
2014 interim dividend withholding tax	14 January 2015				**-**	1.0
Dividends paid as reported in the Group cash flow statement					**48.6**	33.3

20. Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank	**17.7**	6.5

21. Post balance sheet events

In February 2017, the Group agreed a conditional put and call option to sell 8 Fitzroy Street W1 for £197m before costs to the Arup group ('Arup'), who occupy the whole building, with completion expected in June 2017. Simultaneously, Arup agreed to take a 20-year lease on 133,600 sq ft at 80 Charlotte Street W1.

In February 2017, the Group also sold its freehold interest in 132-142 Hampstead Road NW1 for £130m before costs.

The properties disposed of by the Group have not been included in non-current assets held for sale as management was not committed to selling them at 31 December 2016.

On 28 February 2017, the Group announced a special dividend of 52p per share.

22. EPRA performance measures

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2016 '000	2015 '000	**2016 '000**	2015 '000
For use in basic measures	**111,315**	110,320	**111,390**	111,172
Dilutive effect of convertible bonds	**-**	4,498	**-**	4,498
Dilutive effect of share-based payments	**296**	355	**291**	363
For use in measures for which bond conversion is dilutive	**111,611**	115,173	**111,681**	116,033
Less dilutive effect of convertible bonds	**-**	(4,498)	**-**	(4,498)
For use in other diluted measures	**111,611**	110,675	**111,681**	111,535

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

For 2016, the shares attributable to the conversion of the 2019 bonds were anti-dilutive for net asset value (NAV) per share, EPRA NAV per share, EPRA triple NAV per share, unadjusted earnings per share and EPRA earnings per share.

For 2015, the shares attributable to the conversion of the 2019 bonds were dilutive for net asset value (NAV), EPRA NAV per share and unadjusted earnings per share but anti-dilutive for EPRA earnings per share. For consistency purposes the Group adopted the same approach for dilution due to convertible bonds for the calculation of EPRA triple NAV per share as EPRA NAV per share.

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

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

Earnings and earnings per share

	IFRS £m	Adjustments A £m	B £m	C £m	D £m	EPRA basis £m
Year ended 31 December 2016						
Net property and other income	149.2	(1.9)	1.6	-	-	148.9
Total administrative expenses	(30.9)	-	-	-	-	(30.9)
Revaluation deficit	(37.1)	-	37.1	-	-	-
Profit on disposal of investment property	7.5	(7.5)	-	-	-	-
Net finance costs	(27.8)	-	-	-	-	(27.8)
Movement in fair value of derivative financial instruments	0.3	-	-	(0.3)	-	-
Financial derivative termination costs	(9.0)	-	-	9.0	-	-
Share of results of joint ventures	2.3	-	(1.8)	-	-	0.5
Profit before tax	54.5	(9.4)	36.9	8.7	-	90.7
Tax charge	(0.9)	0.5	(2.2)	-	-	(2.6)
Profit for the year	53.6	(8.9)	34.7	8.7	-	88.1
Non-controlling interest	5.1	-	(7.6)	0.1	-	(2.4)
Earnings attributable to equity shareholders	**58.7**	**(8.9)**	**27.1**	**8.8**	**-**	**85.7**
Earnings per share	**52.73p**					**76.99p**
Diluted earnings per share	52.59p					76.78p

	IFRS £m	Adjustments A £m	B £m	C £m	D £m	EPRA basis £m
Year ended 31 December 2015						
Net property and other income	148.6	(3.2)	-	-	-	145.4
Total administrative expenses	(30.0)	-	-	-	-	(30.0)
Revaluation surplus	650.0	-	(650.0)	-	-	-
Profit on disposal of investment property	40.2	(40.2)	-	-	-	-
Net finance costs	(35.1)	-	-	-	0.3	(34.8)
Movement in fair value of derivative financial instruments	7.6	-	-	(7.6)	-	-
Financial derivative termination costs	(6.4)	-	-	6.4	-	-
Share of results of joint ventures	4.6	-	(3.6)	-	-	1.0
Profit before tax	779.5	(43.4)	(653.6)	(1.2)	0.3	81.6
Tax charge	(2.3)	-	1.4	-	-	(0.9)
Profit for the year	777.2	(43.4)	(652.2)	(1.2)	0.3	80.7
Non-controlling interest	(11.0)	0.4	8.4	0.2	-	(2.0)
Earnings attributable to equity shareholders	766.2	(43.0)	(643.8)	(1.0)	0.3	78.7
Interest effect of dilutive convertible bonds	4.0	-	-	-	(4.0)	-
Diluted earnings	770.2	(43.0)	(643.8)	(1.0)	(3.7)	78.7
Earnings per share	694.53p					71.34p
Diluted earnings per share	668.73p					71.11p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2016			
Net assets attributable to equity shareholders	3,932.3	3,530	3,521
Adjustment for:			
Deferred tax on revaluation surplus	5.3		
Fair value of derivative financial instruments	17.3		
Fair value adjustment to secured bonds	14.0		
Non-controlling interest in respect of the above	(2.6)		
EPRA net asset value	**3,966.3**	**3,561**	**3,551**
Adjustment for:			
Mark-to-market of secured bonds 2026	(50.6)		
Mark-to-market of secured loan 2024	(5.2)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(17.3)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(1.4)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(8.0)		
Deferred tax on revaluation surplus	(5.3)		
Fair value of derivative financial instruments	(17.3)		
Unamortised issue and arrangement costs	(10.3)		
Non-controlling interest in respect of the above	2.6		
EPRA triple net asset value	**3,853.5**	**3,459**	**3,450**
At 31 December 2015			
Net assets attributable to equity shareholders - diluted	4,062.7		3,501
Remove conversion of 1.125% unsecured convertible bonds 2019	(140.2)		
Net assets attributable to equity shareholders - undiluted	3,922.5	3,528	
Adjustment for:			
Revaluation of trading properties net of tax	1.4		
Deferred tax on revaluation surplus	8.7		
Fair value of derivative financial instruments	17.6		
Fair value adjustment to secured bonds	15.0		
Non-controlling interest in respect of the above	(3.7)		
EPRA net asset value - undiluted	3,961.5	3,563	
Adjustment for:			
Potential conversion of 1.125% unsecured convertible bonds 2019	140.2		
EPRA net asset value - diluted	4,101.7		3,535
Adjustment for:			
Mark-to-market of secured bonds 2026	(42.2)		
Mark-to-market of secured loan 2024	(0.3)		
Mark-to-market of unsecured fixed rate private placement notes 2029 and 2034	(9.1)		
Deferred tax on revaluation surplus	(8.7)		
Fair value of derivative financial instruments	(17.6)		
Unamortised issue and arrangement costs	(8.7)		
Non-controlling interest in respect of the above	3.7		
EPRA triple net asset value - diluted	4,018.8		3,463
Adjustment for 1.125% unsecured convertible bonds 2019:			
Remove conversion of bonds	(140.2)		
Unamortised issue and arrangement costs	(2.1)		
Mark-to-market of bonds	(29.4)		
EPRA triple net asset value - undiluted	3,847.1	3,460	

Cost ratios

	2016 £m	2015 £m
Administrative expenses	**30.9**	30.0
Other property costs	**7.5**	7.3
Dilapidation receipts	**(0.1)**	(0.7)
Other costs	**-**	0.3
Net service charge costs	**1.3**	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.3)**	(0.2)
Management fees received less estimated profit element	**(2.4)**	(2.6)
Share of joint ventures' expenses	**0.5**	0.3
EPRA costs (including direct vacancy costs) (A)	**37.4**	36.3
Direct vacancy costs	**(2.5)**	(3.1)
EPRA costs (excluding direct vacancy costs) (B)	**34.9**	33.2
Gross rental income	**155.4**	148.3
Ground rent	**(0.7)**	(0.4)
Service charge components of rental income	**(0.3)**	(0.2)
Share of joint ventures' rental income less ground rent	**1.3**	1.4
Adjusted gross rental income (C)	**155.7**	149.1
EPRA cost ratio (including direct vacancy costs) (A/C)	**24.0%**	24.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**22.4%**	22.3%

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

Property portfolio at fair value (D)	**4,942.7**	4,954.5
Portfolio cost ratio (A/D)	**0.8%**	0.7%

The Group has not capitalised any overhead or operating expenses in either 2016 or 2015.

23. Gearing and interest cover

NAV gearing

	2016 £m	2015 £m
Net debt	**904.8**	911.7
Net assets	**3,999.4**	3,995.4
NAV gearing	**22.6%**	22.8%

Loan-to-value ratio

	2016 £m	2015 £m
Net debt	**904.8**	911.7
Fair value adjustment of secured bonds	**(14.0)**	(15.0)
Unamortised issue and arrangement costs	**10.3**	10.8
Leasehold liabilities	**(23.9)**	(23.2)
Drawn debt	**877.2**	884.3
Fair value of property portfolio	**4,942.7**	4,954.5
Loan-to-value ratio	**17.7%**	17.8%

Net interest cover ratio

	2016 £m	2015 £m
Net property and other income	**149.2**	148.6
Adjustments for:		
Other income	**(2.4)**	(2.6)
Other property income	**(0.5)**	(3.7)
Net surrender premiums received	**(0.1)**	-
Write-down of trading property	**1.6**	-
Profit on disposal of trading properties	**(1.9)**	(3.2)
Reverse surrender premiums	**0.1**	-
Adjusted net property income	**146.0**	139.1
Finance income	**-**	(0.1)
Finance costs	**27.8**	34.9
	27.8	34.8
Adjustments for:		
Finance income	**-**	0.1
Other finance costs	**(0.1)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.0**	1.0
Amortisation of issue and arrangement costs	**(2.2)**	(2.3)
Finance costs capitalised	**13.0**	5.0
	39.5	38.4
Net interest cover ratio	**370%**	362%

24. Total return

	2016	2015
	p	p
EPRA net asset value on a diluted basis		
At end of year	**3,551**	3,535
At start of year	**(3,535)**	(2,908)
Increase	**16**	627
Dividend per share	**45**	41
Increase including dividend	**61**	668
Total return	**1.7%**	23.0%

25. Risk management and internal control

Derwent London aims to deliver its strategic objectives whilst operating within a risk envelope defined by the Group's risk appetite. The Board recognises that risks are inherent in running any business and uses the Group's risk management system to ensure that risks to the Group's strategy are identified, understood and managed.

The Board has overall responsibility for risk management and the Group's system of internal controls. To assist with carrying out this task, the Board has delegated responsibility to the Audit Committee and the Risk Committee. Executive Management is responsible for developing and operating the Group's risk management system and for designing, implementing, maintaining and evaluating the systems of internal control.

The Board is responsible for managing the Group's risk profile in an environment that reflects the culture and management structure of the business. Key factors to note in this regard are:

- Senior management encourages an open and transparent culture throughout the business.
- The close day-to-day involvement of the Directors in the business allows any system weaknesses to be identified quickly.
- The Group mainly operates from a single office in Central London which is within close proximity to most of its properties.
- The senior management team is experienced and stable and overall staff turnover is low.
- The Group has a whistleblowing policy which is supported by an independent advice line.
- The Group has clearly defined levels of responsibility and authority.

The Group's risk management framework consists of its Risk Management Policy, Risk Appetite Statement and Risk Management Process document. The framework is designed to identify and manage the risks faced by the business recognising that not all risks can be eliminated at an acceptable cost and that there are some risks that, given its experience, the Board will choose to manage and accept.

In compliance with Code Provision C.2.1 of The UK Corporate Governance Code, the Board has carried out a robust assessment of the principal risks and uncertainties facing the Group. The core element of this assessment is the Group's risk register which is prepared by the Executive Committee in accordance with the Risk Management document. The first stage in its preparation is for the Committee to identify the risks facing the Group. An assessment is then made collectively by the Committee of the following matters:

- The likelihood of each risk occurring.
- The potential impact of the risk on each different area of the business.
- The strength of the controls operating over the risk and the effectiveness of any mitigating actions.

This approach allows the final assessment to reflect the effect of the controls and any mitigating procedures that are in place. If the controls and mitigating actions over a risk are deemed inadequate, the committee will agree a target risk profile together with supplementary controls/actions and a timetable for their implementation.

The register and its method of preparation have been reviewed by the Risk Committee. In order to gain a more comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee periodically receives presentations from senior managers and external advisers. The Risk Committee has also monitored the Company's risk management and internal control systems primarily by regularly reviewing the set of key risk indicators that were implemented in 2015. This was supplemented by reviews of the top ten risks on the Group's risk register and the adequacy of the controls operating over these risks.

Following these reviews, the Board is satisfied that the Group's risk management and internal control systems operated effectively throughout the period.

The Group's risk register includes 47 risks split between strategic risks, operational risks and finance risks. One new risk has been added to the Group's list of principal risks:

- That the negotiations to leave the European Union result in arrangements that are damaging to the UK economy/Central London.

The Board considered whether the overall increase in the level of risk faced by the Group in 2017. It noted that only a few of the risks had abated during the year, whilst the risk surrounding Brexit was a significant new factor and cyber risk continued to increase. Taken with the general increase in both political and economic uncertainty, the Board concluded that the increase was justified.

The principal risks and uncertainties facing the Group in 2017 are set out on the following pages together with the potential effects, controls and mitigating factors.

Strategic risks

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

Risk, effect and progression	Controls and mitigation	Action
1. Inconsistent strategy The Group's strategy is inconsistent with the state of its market. **2. Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. Throughout most of 2016, the Group continued to benefit from a resilient central London market. However, following the EU referendum vote, sentiment became more fragile and the likelihood of the London market being adversely affected by one or more of a number of high-level economic factors remained high. If this were to occur, it would reduce the value of the Group's portfolio and the returns from its developments. This would affect two of the Group's KPIs –total return and total property return. The Board sees the level of both these risks to be broadly unchanged from last year.	• The Group carries out an annual five-year strategic review each year and also prepares a budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the sensitivity of the Group's KPIs and key ratios to changes in the main assumptions underlying the forecast thereby modelling different economic scenarios. • The Group's plans are then set so as to best realise its long-term strategic goals given the most likely economic and market conditions and the Group's risk appetite. This flexibility is largely derived from the Group's policy of maintaining income from properties for as long as possible until development starts. • The level of future redevelopment opportunities in the Group's portfolio enables the Board to delay marginal projects until market conditions are favourable. • The Board pays particular attention, when setting its plans, to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover. • Pre-lets are sought to de-risk major projects.	• The last annual strategic review was carried out by the Board in June 2016. This considered the sensitivity of six key measures to changes in underlying assumptions, including interest rates and borrowing margins, timing of projects, level of capital expenditure and the extent of capital recycling. • The three rolling forecasts prepared during the year focus on the same key measures but may consider the effect of varying different assumptions to reflect changing economic and market conditions. • The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. • 43% of the Group's portfolio has been identified for future redevelopment. • During the period the Group's loan-to-value ratio remained at approximately 18%, its net interest cover ratio was above 370% and the REIT ratios were comfortably met. • Pre-lets were secured over 439,100 sq ft during 2016, with a further 133,600 sq ft already let in 2017.

3. Adverse Brexit settlement Negotiations to leave the European Union result in arrangements that are damaging to the UK economy and/or Central London. Negotiations will take at least two years and the operating framework facing UK businesses thereafter cannot be predicted. This is a new principal risk and it would primarily affect the Group's total return and total property return KPIs.	• The Group's strong financing and covenant headroom enables it to weather a downturn. • The Group's diverse and high-quality tenant base provides resilience against tenant default. • The Group's development pipeline has a degree of flexibility that enables the strategy for individual properties to be changed to reflect the prevailing economic circumstances. • Financially strong and reputable contractors are used with good access to available labour. • The Group's focus on good value, middle market properties, makes it less susceptible to reductions in tenant demand.	• At the year end, the Group had undrawn facilities and cash of £383m. • Income is maintained at future developments until the scheme is ready to start.
4. Reputational damage The Group's reputation is damaged through unauthorised and inaccurate media coverage. It would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to be unchanged over the year.	• All new members of staff benefit from an induction programme and are issued with the Group's Staff Handbook. • Social media channels are monitored by the Group's investor relations department. • The Group takes advice on technological changes in the use of media and adapts its approach accordingly. • There is an agreed procedure for approving all external statements.	• The Group employs a Head of Investor and Corporate Communications and retains the services of an external PR agency. Both maintain regular contact with external media sources. • The Company engages with a number of local community bodies in areas where it operates as part of its CSR activity.

Financial risks

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

Risk, effect and progression	Controls and mitigation	Action
5. Increase in property yields Increased property yields, which may be a consequence of rising interest rates, would cause property values to fall. Interest rates have remained low for an extended period and are expected to rise within the next two years. Though there is no direct relationship, this may cause property yields to increase in due course. It would affect the following KPIs: • Loan-to-value ratio. • Total return. • Total property return. The risk was assessed as high last year and the Board considers it to have marginally increased this year.	• The impact of changes in property values on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved. • The impact of yield changes is considered when potential projects are appraised. • The Group's move towards mainly unsecured financing over the past few years has made management of its financial covenants less complicated.	• The Group produces three rolling forecasts each year which contain detailed sensitivity analyses, including the effect of changes to yields. • Quarterly management accounts report the Group's performance against covenants. • Project appraisals are regularly reviewed and updated in order to monitor the effect of yield changes.

Operational risks

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

Risk, effect and progression	Controls and mitigation	Action
6. Reduced development returns The Group's development projects do not produce the targeted financial return due to one or more of the following factors: • Delays on site. • Increased construction costs. • Adverse letting conditions. This would have an effect on the Group's total return and total property return KPIs. The Board considers this risk to have remained broadly the same over the past year.	• Standardised appraisals, which include contingencies and inflationary cost increases, are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed-price contracts entered into. • Procedures carried out before starting work on site, such as pre-work investigations, historical research of the property and surveys, etc. conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on site. • The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. • Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures can be identified and implemented.	• The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • The Group's style of accommodation remains in demand as evidenced by the 63 lettings achieved in 2016 which totalled 547,500 sq ft. • The Group has often secured significant pre-lets of the space in its development programme which significantly 'de-risks' those projects. 27 pre-lets were secured in 2016, over 439,100 sq ft and a further 133,600 sq ft has already been pre-let in 2017.
7. Cyber attack The Group is the victim of a cyber-attack that results in it being unable to use its IT systems. This would lead to an increase in costs and a diversion of management time. Increased costs would have an impact on the Group's total return KPI whilst a significant diversion of management time would have a wider effect. Although controls and procedures over the Group's IT infrastructure continue to be improved, the elevated profile of such risks means	• The Group's IT systems are protected by anti-virus software and firewalls that are continually updated. • The Group's data is regularly backed up and replicated. • The Group's Business Continuity Plan was revised and tested during 2015. • Multifactor authentication has been introduced for both internal and external access to the systems. • The Group's IT department has access to cyber threat intelligence and analytics data. • Incident response and remediation policies are in place.	• Independent internal and external penetration tests are regularly conducted to assess the effectiveness of the Group's security. No matters were raised as a result of the 2016 test. • The switchover of the IT system to the Group's backup facility was successfully tested in 2016. • Staff awareness programmes and presentations are delivered to alert staff to the techniques that may be used to gain unauthorised access to the Group's systems. • Security measures are regularly reviewed by the IT Security Committee.

that the Board considers the risk to have increased over the year.	• Cyber insurance is being evaluated.	• The Head of IT regularly reports to the Executive Committee. • An independent benchmarking review of the Group's cyber security has been carried out.
8. Regulatory non-compliance The Group's cost base is increased and management time diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. An increase in costs would directly impact on the Group's total return KPI. A significant diversion of management time could affect a wider range of key metrics. The Board considers this risk to be unchanged from last year.	• Each year the Group's Risk Committee receives a report prepared by the Group's lawyers identifying legislative/regulatory changes expected over the next 12 months and reports to the Board concerning regulatory risk. • The Group employs a Head of Health and Safety who reports to the Board. • The Group employs a Head of Sustainability who reports to the sustainability committee which is chaired by Paul Williams. • The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. • Members of staff attend external briefings in order to be updated on regulatory changes.	• A Health and Safety report is presented at all Executive Committee and main Board meetings. • The Executive Committee receives regular reports from the Head of Sustainability. • The Group pays considerable attention to sustainability issues and produces an annual sustainability report. • No incidents were reported under the Group's whistleblowing policy in 2016. • The Group has considered the requirements of the Modern Slavery Act and revised its policies where appropriate in order to comply with the legislation. • The Groups' Health and Safety processes were reviewed and improved in 2016 and a new external consultant was appointed.
9. Contractor/sub-contractor default Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major sub-contractor defaulting during the project. This would primarily affect the Group's total property return KPI. The risk is considered to have remained at the same level in 2016.	• Whenever possible the Group uses contractors/sub-contractors that it has previously worked with successfully. • The resilience of a project's critical path is improved by establishing procedures to manage any sub-contractor default effectively. • Key construction packages are acquired early in the project. • Performance bonds are sought if considered necessary. • Regular on-site supervision by Derwent London personnel increases the likelihood of identifying any problems at an early stage, thereby enabling remedial action to be taken sooner.	• As the size of the Group's projects has increased so the contractors have become more substantial. • The financial accounts of both main contractors and major sub-contractors are reviewed. • The Group's development managers are regularly onsite and conduct surprise visits.

10. Shortage of key staff The Group is unable successfully to implement its strategy due to a failure to recruit and retain key staff with appropriate skills. This risk could impact on any or all of the Group's KPIs. The risk is seen to be unchanged over the year.	• The Nominations Committee consider succession matters as a standing agenda item. • Requirements for senior management succession are considered as part of the five-year strategic review. • The remuneration packages of all employees are benchmarked regularly. • Six-monthly appraisals identify training requirements which are fulfilled over the next six months.	• The Group recruited 13 new members of staff during the year. • Staff turnover in 2016 was low at 11%. • The average length of employment is 7.3 years.

Financial instruments – risk management

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

- credit risk;
- market risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

Principal financial instruments

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

General objectives, policies and processes

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

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

Credit risk

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

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

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

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

Market risk

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

The Group monitors its interest rate exposure on a regular basis. Sensitivity analysis performed to ascertain the impact on the profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.2m (2015: £0.7m) or a decrease of £0.2m (2015: £0.7m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2016, the proportion of fixed debt held by the Group was above this range at 95% (2015: 85%) following a property disposal in December. During both 2016 and 2015, the Group's borrowings at variable rate were denominated in sterling.

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

Liquidity risk

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

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

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

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

Capital disclosures

The Group's capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and non-controlling interest).

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined in the list of definitions at the end of this announcement and are derived in note 23.

26. List of definitions

Capital return

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

Diluted figures

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

Earnings/earnings per share (EPS)

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

Estimated rental value (ERV)

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

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA earnings per share**

Earnings from operational activities.

- **EPRA net asset value per share**

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

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

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

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

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

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

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

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

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

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

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

- **EPRA vacancy rate**

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

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

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

Fair value adjustment

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

Ground rent

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

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

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

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

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

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

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

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

NAV gearing
Net debt divided by net assets.

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

Net debt
Borrowings plus bank overdraft less cash and cash equivalents.

Net interest cover ratio
Net property income, excluding all non-core items divided by interest payable on borrowings and non-utilisation fees.

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

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

Real Estate Investment Trust (REIT)
The UK Real Estate Investment Trust ("REIT") regime was launched on 1 January 2007. On 1 July 2007, Derwent London plc elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publically available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution. Property income distributions from the tax exempt property rental business will suffer withholding tax at 20% with withholding tax exemption for certain UK resident companies and tax exempt bodies.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors.

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

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

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

Total property return (TPR)
Total property return is a performance measure calculated by the IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as 'the percentage value change plus net income accrual, relative to the capital employed'.

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

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields

- **Net initial yield**

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

- **Reversionary yield**

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

- **True equivalent yield**

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

- **Yield shift**

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

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

Notes to editors

Derwent London plc

Derwent London plc owns a portfolio of commercial real estate predominantly in central London valued at £5.0 billion (including joint ventures) as at 31 December 2016, making it the largest London-focused real estate investment trust (REIT).

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

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

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

Landmark schemes in our 6.0 million sq ft portfolio include Angel Building EC1, The Buckley Building EC1, White Collar Factory EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In 2016, the Group won the Estates Gazette National Company of the Year and London awards as well as awards from Architects' Journal, British Council for Offices, Civic Trust and RIBA and achieved EPRA Gold for corporate and sustainability reporting.

As part of its wider sustainability programme, in 2013 Derwent London launched a dedicated £250,000 voluntary Community Fund and, in 2016, made a further commitment of £300,000 for the next three years for Fitzrovia and the Tech Belt.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER.

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

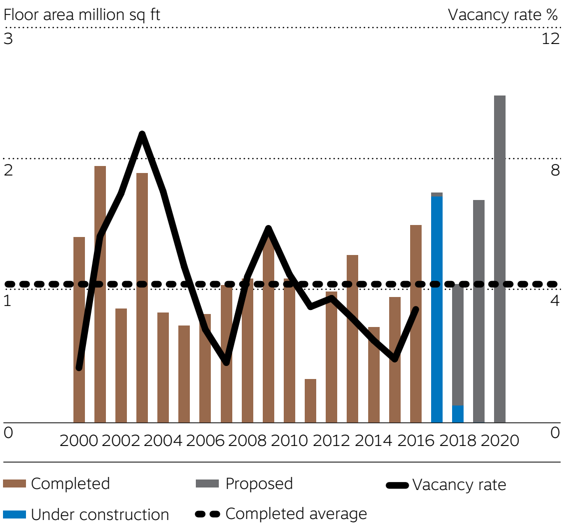
Forward-looking statements

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

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

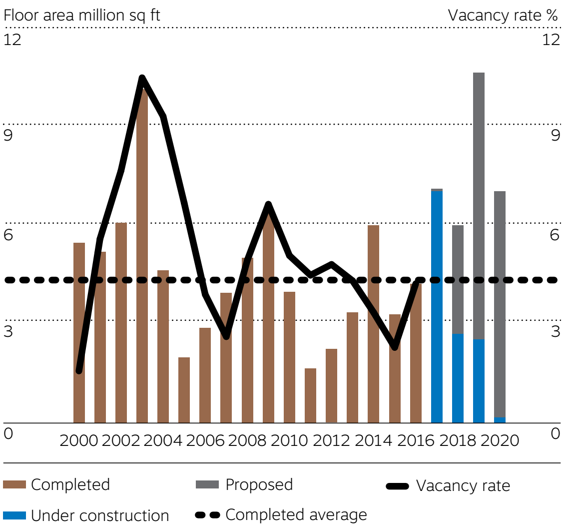
APPENDIX 1
OUR MARKET

West End office development pipeline



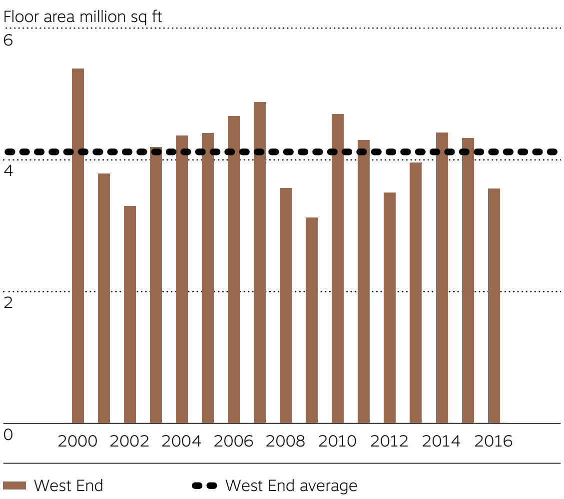
Source: CBRE

Central London office development pipeline



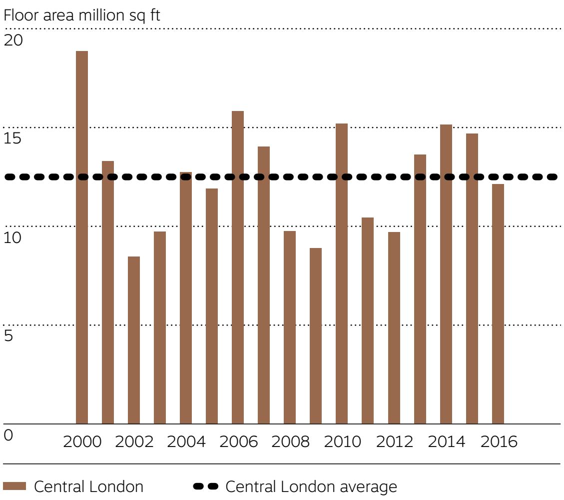
Source: CBRE

West End office take-up



Source: CBRE

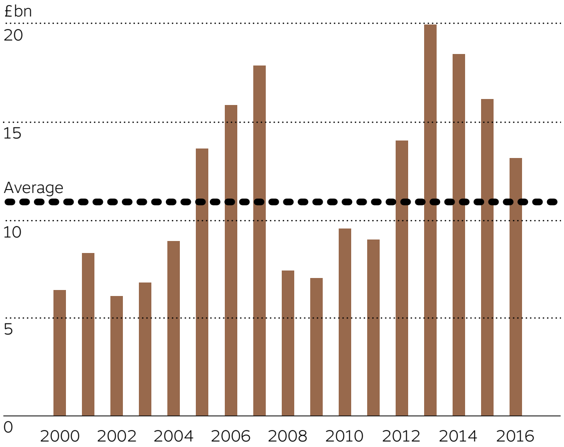
Central London office take-up



Source: CBRE

APPENDIX 1
OUR MARKET

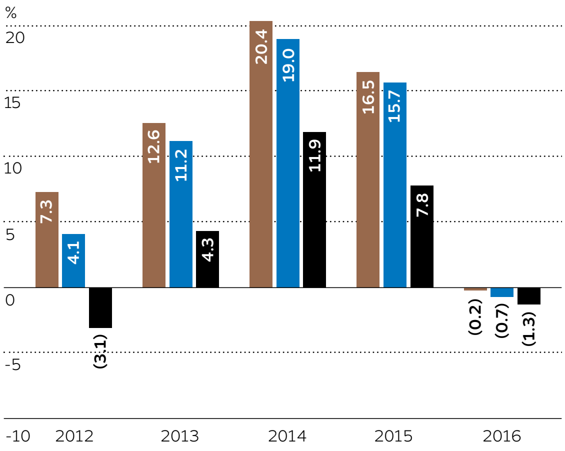
Central London office investment transactions



Source: CBRE

APPENDIX 2
VALUATION

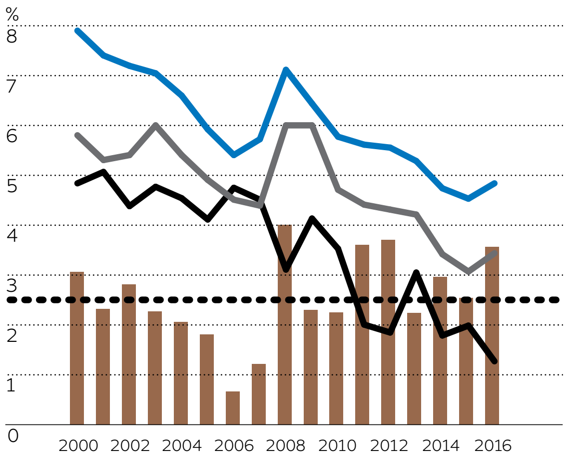
Valuation performance



Derwent London
IPD UK All Property Index[1]
IPD Central London Offices[1]

[1] Quarterly Index.

Valuation yields



Derwent London True Equivalent Yield (TEY)
Derwent London Initial Yield
10-year Gilt
Gap between DL TEY and 10-year Gilt
Average gap (257 bp)

Portfolio statistics – valuation

		Valuation £m	Weighting %	Valuation[1] performance %	Occupied floor area[2] '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central		2,716.0	54	(0.6)	2,315	33	52	640	3,040
Borders		440.1	9	(1.5)	516	–	–	–	516
		3,156.1	63	(0.7)	2,831	33	52	640	3,556
City									
Borders		1,724.1	35	1.0	1,795	76	109	102	2,082
Central London		4,880.2	98	(0.1)	4,626	109	161	742	5,638
Provincial		100.3	2	(1.9)	337	4	2	–	343
Total portfolio	**2016**	**4,980.5**	**100**	**(0.2)**	**4,963**	**113**	**163**	**742**	**5,981**
	2015	4,988.5	100	16.5	4,745	69	421	934	6,169

1 Properties held throughout the year.
2 Includes pre-lets of current major projects.

APPENDIX 2
VALUATION

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		150.3
Contractual rental increases across the portfolio	33.7	
Contractual rental from pre-lets on major projects	18.3	
Letting 113,000 sq ft available floor area	5.3	
Completion and letting 163,000 sq ft of minor refurbishments	6.0	
Completion and letting 742,000 sq ft of major projects	47.1	
Anticipated rent review and lease renewal reversions	23.8	
Portfolio reversion		134.2
Potential portfolio rental value		284.5

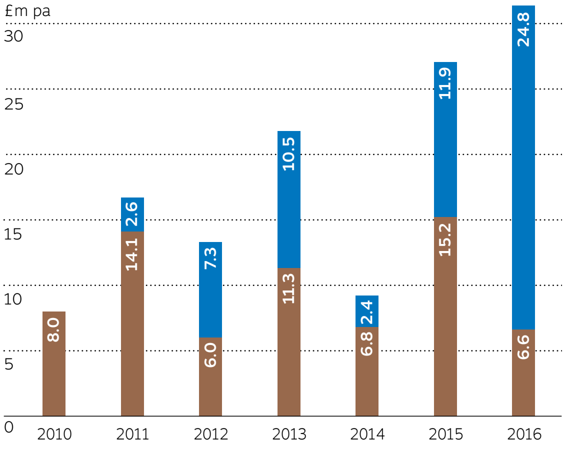
Portfolio statistics – rental income

		Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End							
Central		80.6	35.20	47.7	31.1	159.4	6.9
Borders		19.8	38.43	-	5.1	24.9	6.3
		100.4	35.79	47.7	36.2	184.3	6.7
City							
Borders		44.7	25.62	10.6	39.4	94.7	6.2
Central London		145.1	31.84	58.3	75.6	279.0	6.6
Provincial		5.2	15.44	0.1	0.2	5.5	3.7
Total portfolio	**2016**	**150.3**	**30.73**	**58.4**	**75.8**	**284.5**	**6.5**
	2015	137.1	29.28	76.4	64.6	278.1	7.0

1 Lease length weighted by rental income at year end and assuming tenants break at first opportunity.

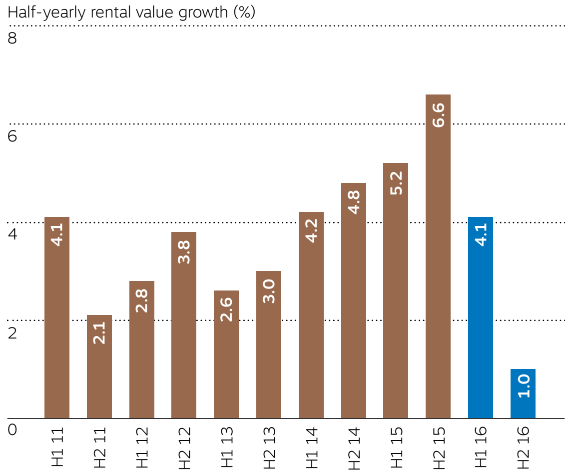
APPENDIX 3
PORTFOLIO MANAGEMENT

Letting activity by rational income

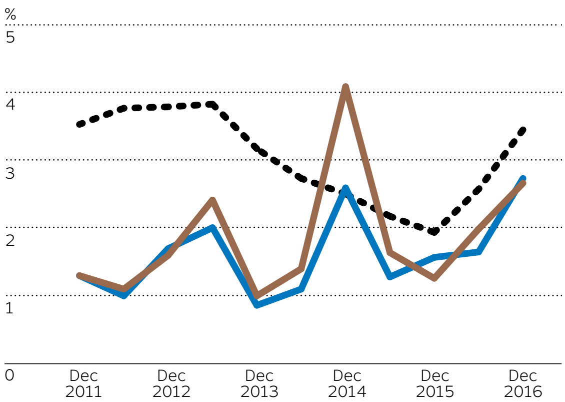


Pre-lets
Non pre-lets

Rental value growth

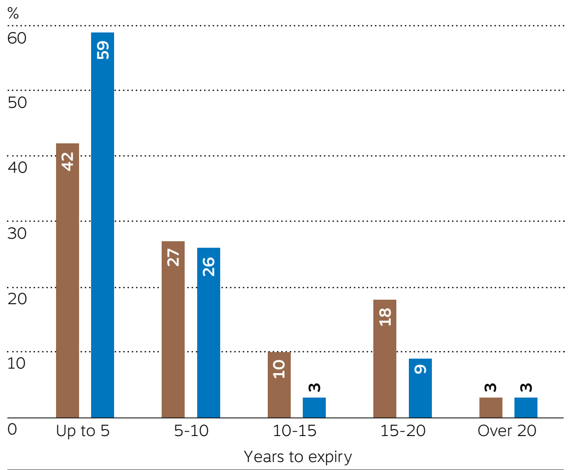


Five-year vacancy trend



Derwent London (by rental value)
Derwent London (by floor area)
CBRE West End Offices (by floor area)

Profile of rental income expiry[1]

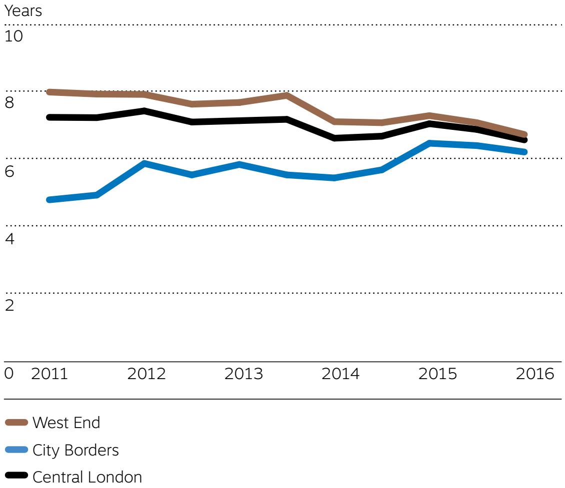


No lease breaks exercised
Lease breaks exercised at first opportunity

[1] Based upon annualised net contracted rental income of £150.3m.

APPENDIX 3
PORTFOLIO MANAGEMENT

Average unexpired lease length[1]



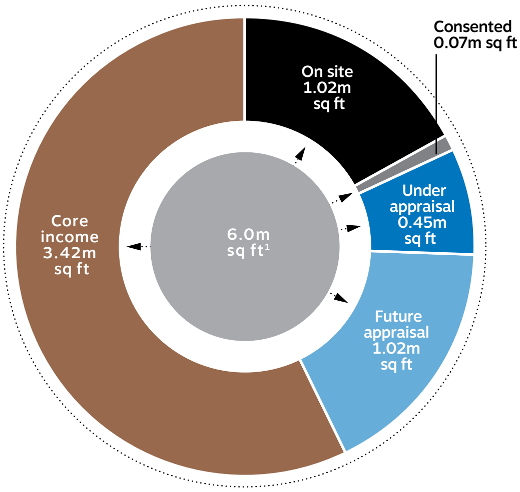
[1] Lease length weighted by rental income and assuming tenants' break at first opportunity.

APPENDIX 4
PROJECTS

Portfolio composition

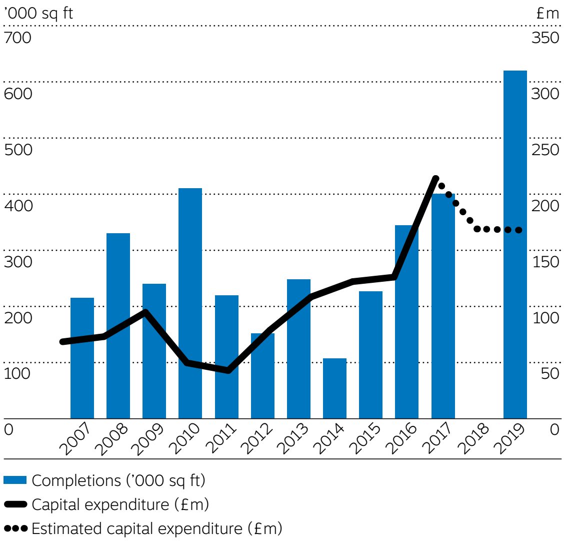
Income producing with lots of potential

Average lease length of 6.5 years

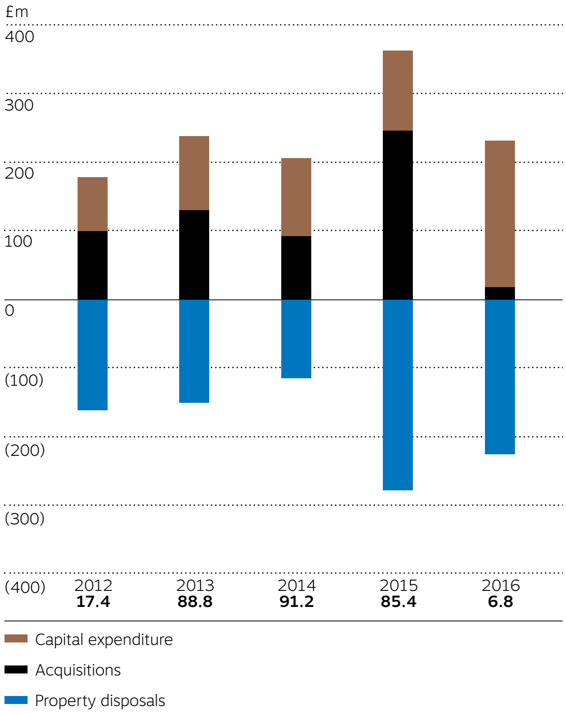


[1] Comprises 5.0m sq ft of existing buildings plus 1.0m sq ft of on-site developments.

Completions and capital expenditure

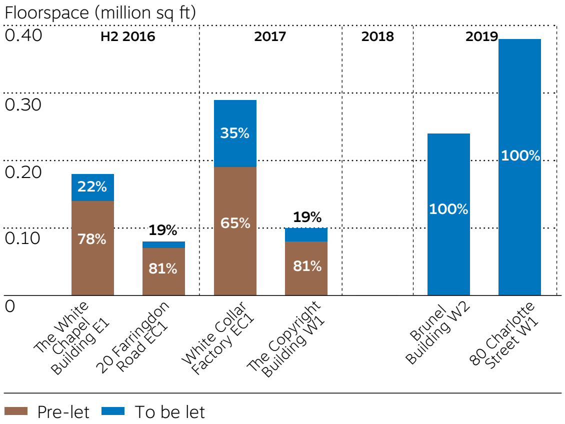


Net investment



APPENDIX 4
PROJECTS

Pre-letting developments – at 31 December 2016



Project summary 2017-2018

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2017 capex £m	2018 capex £m	2019+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
White Collar Factory EC1	–	124	293	11	–	–	11	Q1 2017	£60
The Copyright Building W1	(0.4)	86	107	24	–	–	24	H2 2017	£80
Brunel Building W2	(0.1)	78	240	46	49	4	99	H1 2019	£62.50
80 Charlotte Street W1	–	234	380	51	102	60	213	H2 2019	£80
	(0.5)	522	1,020	132	151	64	347		
Other	–	–	–	16	–	–	16		
Committed projects	**(0.5)**	**522**	**1,020**	**148**	**151**	**64**	**363**		
Planning and design	–	–	–	8	1	–	9		
Other	–	–	–	2	3	10	15		
	–	**–**	**–**	**10**	**4**	**10**	**24**		
Total	**(0.5)**	**522**	**1,020**	**158**	**155**	**74**	**387**		
Capitalised interest	**–**	**–**	**–**	**11**	**13**	**14**	**38**		
Total including interest	**(0.5)**	**522**	**1,020**	**169**	**168**	**88**	**425**		

Project summary 2018 onwards

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
1 Oxford Street W1	–	–	275	2018	Offices, retail and theatre
Monmouth House EC1[1]	0.2	69	125	2020	2016 consent – Opposite White Collar Factory
	0.2	**69**	**400**		
Appraisals[2]					
19-35 Baker Street W1	5.8	146	293	2018	Joint venture – 55% Derwent London interest
Premier House SW1	2.2	62	80	2018	
Network Building W1	1.9	64	100	2021	
Francis House SW1[3]	3.1	90	130	TBC	
Holden House W1	6.0	91	137	TBC	
	19.0	**453**	**740**		
Adjustments for JVs	(2.6)	(66)	(132)		19-35 Baker Street W1
	16.4	**387**	**608**		
Consented and appraisals	**16.6**	**456**	**1,008**		
On-site projects	**(0.5)**	**522**	**1,020**		From table above
Pipeline	**16.1**	**978**	**2,028**		

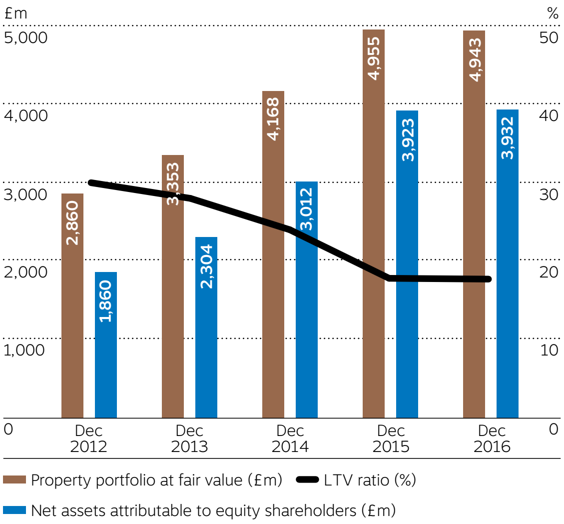
1 Includes 19-23 Featherstone Street EC1
2 Areas proposed are estimated from initial studies
3 Includes 6-8 Greencoat Place SW1

APPENDIX 5
FINANCE

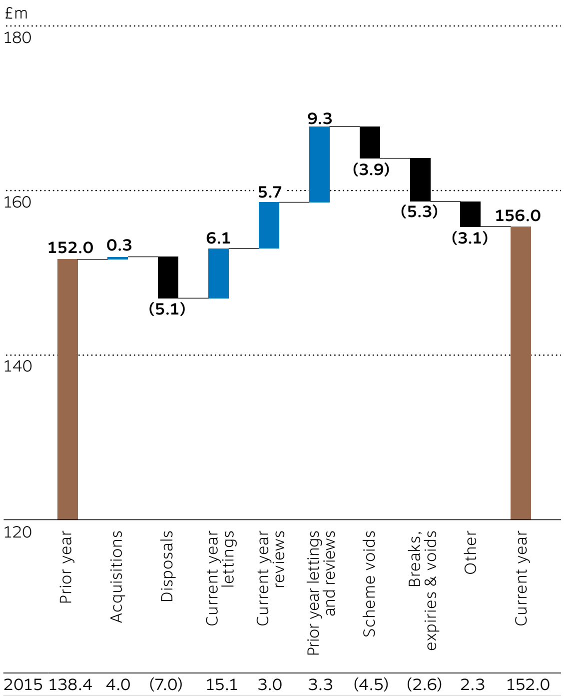
Financial highlights

	2016	2015
IFRS NAV	**£3,999.4m**	£3,995.4m
EPRA NAV per share	**3,551p**	3,535p
Property portfolio at fair value	**£4,942.7m**	£4,954.5m
Net rental income	**£145.9m**	£138.7m
Profit before tax	**£54.5m**	£779.5m
EPRA earnings per share (EPS)	**76.99p**	71.34p
Dividend per share	**52.36p**	43.40p
LTV ratio	**17.7%**	17.8%
NAV gearing	**22.6%**	22.8%
Net interest cover ratio	**370%**	362%

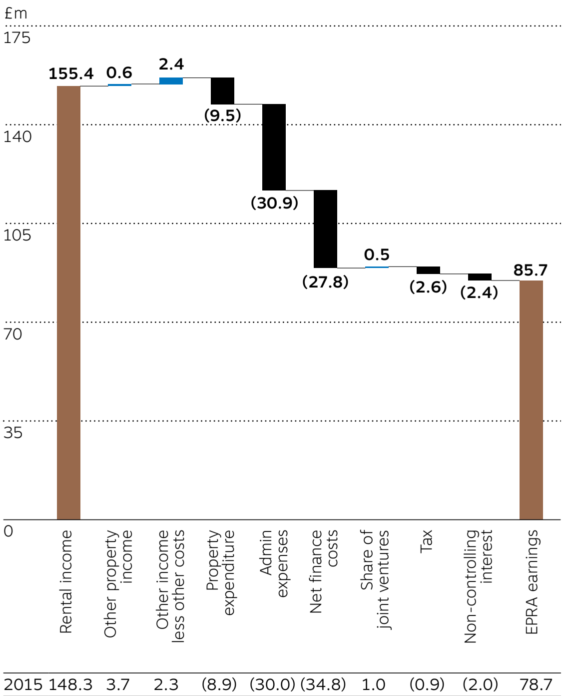
Property portfolio value, net assets and gearing



Gross property income



EPRA earnings



APPENDIX 5
FINANCE

EPRA like-for-like rental income

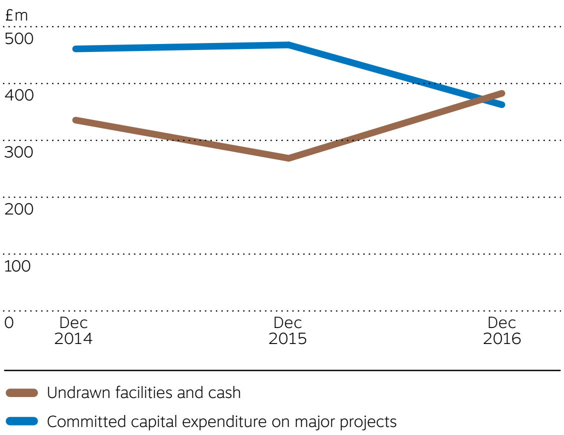
	Properties owned throughout the year £m	Acquisitions £m	Disposals £m	Development Property £m	Total £m
2016					
Gross rental income	**120.8**	**5.4**	**3.0**	**26.2**	**155.4**
Property Expenditure	(4.6)	(1.0)	(1.0)	(2.9)	(9.5)
Net rental income	**116.2**	**4.4**	**2.0**	**23.3**	**145.9**
Profit on disposal of trading properties	–	–	1.9	–	1.9
Write-down of trading property	–	–	–	(1.6)	(1.6)
Other[1]	2.8	0.1	–	0.1	3.0
Net property income	**119.0**	**4.5**	**3.9**	**21.8**	**149.2**
2015					
Gross rental income	114.9	3.1	8.1	22.2	148.3
Property Expenditure	(5.0)	(0.2)	(1.0)	(3.4)	(9.6)
Net rental income	109.9	2.9	7.1	18.8	138.7
Profit on disposal of trading properties	–	–	3.2	–	3.2
Other[1]	2.7	–	0.6	3.4	6.7
Net property income	112.6	2.9	10.9	22.2	148.6
Increase based on gross rental income	**5.1%**				**4.8%**
Increase based on net rental income	**5.7%**				**5.2%**
Increase based on net property income	**5.7%**				**0.4%**

1 Includes surrender premiums paid or received, dilapidation receipts and other income.

Cost ratios

	2016 %	2015 %
EPRA cost ratio, incl. direct vacancy costs	**24.0**	24.3
EPRA cost ratio, excl. direct vacancy costs	**22.4**	22.3
Portfolio cost ratio, incl. direct vacancy costs	**0.8**	0.7

Committed capital expenditure on major projects and available funds



APPENDIX 5
FINANCE

Debt facilities

	£m	£m	Maturity
6.5% secured bonds		175	March 2026
3.99% secured loan		83	October 2024
1.125% unsecured convertible bonds		150	July 2019
4.41% unsecured private placement notes		25	January 2029
4.68% unsecured private placement notes		75	January 2034
3.46% unsecured private placement notes		30	May 2028
3.57% unsecured private placement notes		75	May 2031
Committed bank facilities			
Term – secured	28		June 2018
Bilateral revolving credit – unsecured	75		July 2021
Club revolving credit – unsecured	100		January 2021
Club revolving credit – unsecured	450		January 2022
		653	
At 31 December 2016		**1,266**	

Debt summary

	2016 £m	2015 £m
Bank loans		
Floating rate	**44.5**	137.5
Swapped	**243.0**	253.0
	287.5	390.5
Non-bank debt		
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Unsecured private placement notes 2028 - 2034	**205.0**	100.0
	613.0	508.0
Total	**900.5**	898.5
Hedging profile (%)		
Fixed	**68**	57
Swaps	**27**	28
	95	85
Percentage of debt that is unsecured (%)	**68**	68
Percentage of non-bank debt (%)	**68**	57
Weighted average interest rate – cash basis (%)	**3.65**	3.68
Weighted average interest rate – IFRS basis (%)	**3.90**	3.93
Weighted average maturity of facilities (years)	**6.9**	6.8
Weighted average maturity of borrowings (years)	**7.7**	7.3
Undrawn facilities and cash	**383**	269
Uncharged properties	**3,777**	3,709

APPENDIX 5
FINANCE

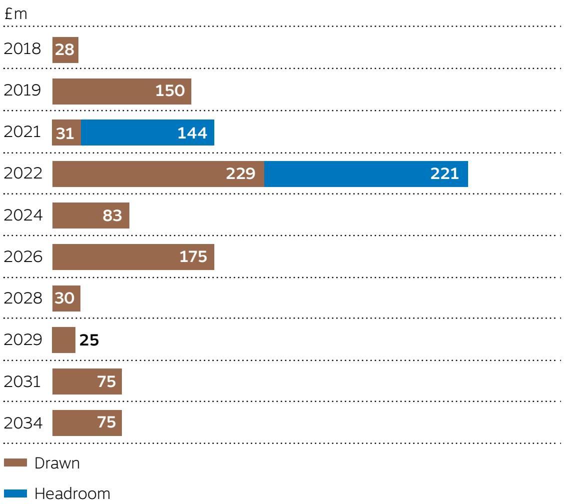
Gearing and interest cover ratio

	2016 %	2015 %
Loan-to-value ratio	**17.7**	17.8
NAV gearing	**22.6**	22.8
Net interest cover ratio	**370**	362

Net Debt

	2016 £m	2015 £m
Cash	**(17.7)**	(6.5)
Bank facilities	**287.5**	390.5
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
Acquired fair value of secured bonds less amortisation	**14.0**	15.0
3.46% unsecured private placement notes 2028	**30.0**	–
4.41% unsecured private placement notes 2029	**25.0**	25.0
3.57% unsecured private placement notes 2031	**75.0**	–
4.68% unsecured private placement notes 2034	**75.0**	75.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Equity components and unwinding of discounts on convertible bonds	**(5.6)**	(7.7)
Leasehold liabilities	**23.9**	23.2
Unamortised issue and arrangement costs	**(10.3)**	(10.8)
Net debt	**904.8**	911.7

Maturity profile of debt facilities as at 31 December 2016



Maturity profile of fixed rates and swaps as at 31 December 2016