REPORT & ACCOUNTS 2014

DERWENT LONDON PLC

Front cover image:
Turnmill EC1

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Derwent London plc is the largest real estate investment trust (REIT) specialising in central London offices. We own and manage a portfolio of 5.7 million square feet located in 17 'villages' in London's West End and City borders and focus on middle market rents.

Experience and local knowledge has enabled us to identify many of London's emerging locations such as those around the Crossrail hubs and in the Tech Belt.

We typically acquire properties off-market at relatively low capital values with short income streams and work out the optimum strategy for each by understanding and anticipating the needs of occupiers and the wider community.

We have a substantial pipeline of design-led schemes, adding value by refurbishment, redevelopment or active asset management and balancing these activities with a robust income stream, a focus on interest cover, modest leverage and flexible financing. When we believe we can find better growth elsewhere, we recycle capital by disposing of properties and invest in new stock for the future to add to our pipeline.

ANTICIPATING TRENDS

DELIVERING DESIGN EXCELLENCE AND VALUE

PRODUCING ABOVE AVERAGE RETURNS

1-2 Stephen Street W1

1 OVERVIEW

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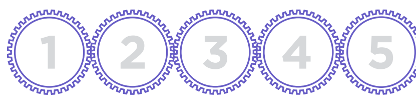
WHAT WE DO AND KEY ACHIEVEMENTS

Our principal objective is to deliver above average long-term returns for our shareholders through owning, creating and managing well-designed central London offices benefiting occupiers and neighbourhoods.

OUR BUSINESS MODEL



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28.4%
increase in EPRA net asset value per share

Page 62

30.1%
total return

Page 62

1 ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE

We purchase buildings in central London which can be improved, enlarged or regenerated. These purchases will typically be off relatively low rents and capital values per sq ft.

- In March we acquired 19-23 Featherstone Street EC1, adjoining our Monmouth House EC1 and potentially unlocking a site for 125,000 sq ft (uplift of 81% by area) opposite our White Collar Factory EC1 development site
- In November we purchased Angel Square EC1 (128,700 sq ft offices in three adjoining properties), opposite our Angel Building EC1, with reversionary and longer term enlargement and regeneration potential

£90.9m
acquisition of two properties both adding to existing Tech Belt clusters

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2 CREATE WELL-DESIGNED SPACE

Each property has a business plan, where we seek to maximise returns through design-led planning gain, effective development and construction delivery to provide flexible, resilient and sustainable space attractive to occupiers, investors and the local community.

- In 2014 we completed 106,550 sq ft of major projects, currently 75% let or sold, including our first standalone residential scheme
- Started construction of White Collar Factory EC1 (293,000 sq ft of mixed-use space) adopting our research into the space demands of the creative industries and, as a result, providing innovative office space with potential for lower carbon emissions
- Planning secured on 25-33 Berners Street W1 and 25 Savile Row W1 (together 163,000 sq ft)

485,000sq ft
of development ready to start in 2015

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A Angel Square EC1
B White Collar Factory EC1
C 1-2 Stephen Street W1
D Jaeger House W1
E Horseferry House SW1

"Our long-term strategy of investing in innovative design-led projects in London's emerging villages appeals to occupiers and investors, as the definition of London's core office locations continues to evolve."

ROBERT RAYNE
CHAIRMAN

3 OPTIMISE INCOME

We seek to work with our occupiers through active management which can include letting, restructuring leases, or taking back space. Our aim is to secure a sound recurring and growing income base which services our overheads, interest costs and dividend and provides the platform for our regeneration activity.

- In July we pre-let 28,350 sq ft to Freud Communications
- 2014 lettings secured £9.2m p.a. of rental income 11.2% above December 2013 ERV

4.5%

increase in contracted net rental income to £131.7m p.a.

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4 RECYCLE CAPITAL

Sell properties where business plans have been completed, market conditions are favourable, or which no longer fit the Group's strategy.

- In April sold Jaeger House W1 for £30.3m prior to development
- In H2 sold four smaller properties for a total of £67.7m

sold £98.0m

of commercial property at an average value of £675 per sq ft: 40% above Dec 2013 values

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5 MAINTAIN STRONG AND FLEXIBLE FINANCING

Each property is considered in the context of the Group as a whole, as well as having its own business plan. Our financing approach provides a robust and flexible financial base consistent with our active asset management model. This gives us the ability to cover our financial commitments with headroom to spare while maintaining the flexibility to cope with a changing economic environment.

- In December extended maturity of £550m bank facility to January 2020
- LTV ratio reduced to 24% at 31 December 2014
- Conversion of £175m of bonds into new equity in January 2015 reduces debt and further lowers gearing ratios

286%

net interest cover ratio

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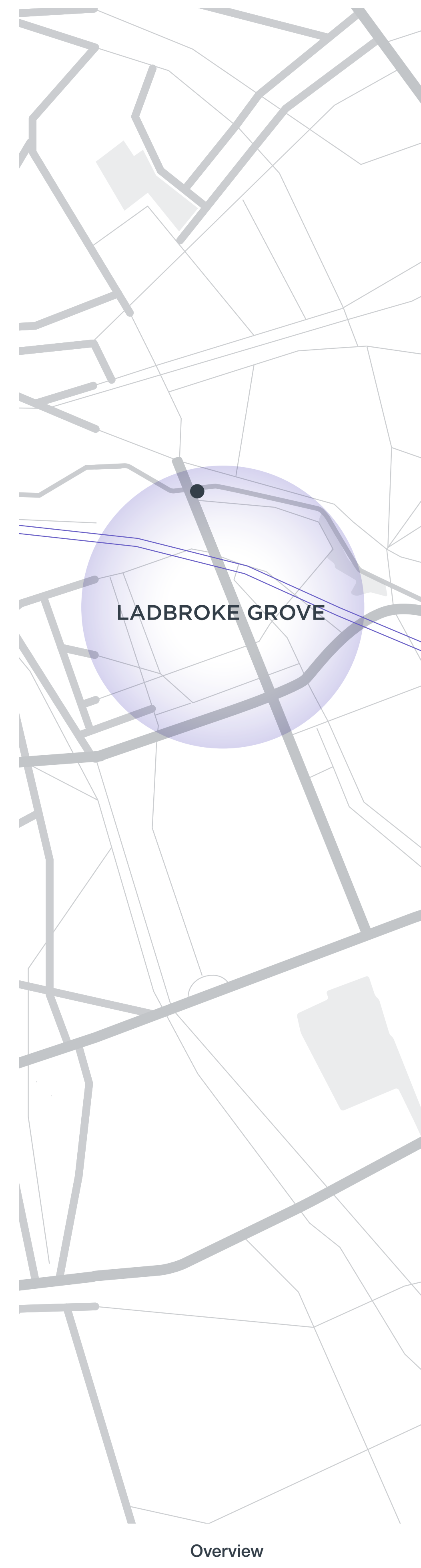
OUR PORTFOLIO

Our portfolio comprises 5.7 million sq ft (534,000m^2) of properties valued at £4.2 billion. 98% of our properties are located in central London, grouped in 17 'villages', each with its own culture and identity. 70% can be found in the West End and 28% in the City borders. The balance relates to properties held in Scotland on the northern outskirts of Glasgow.



105
Buildings

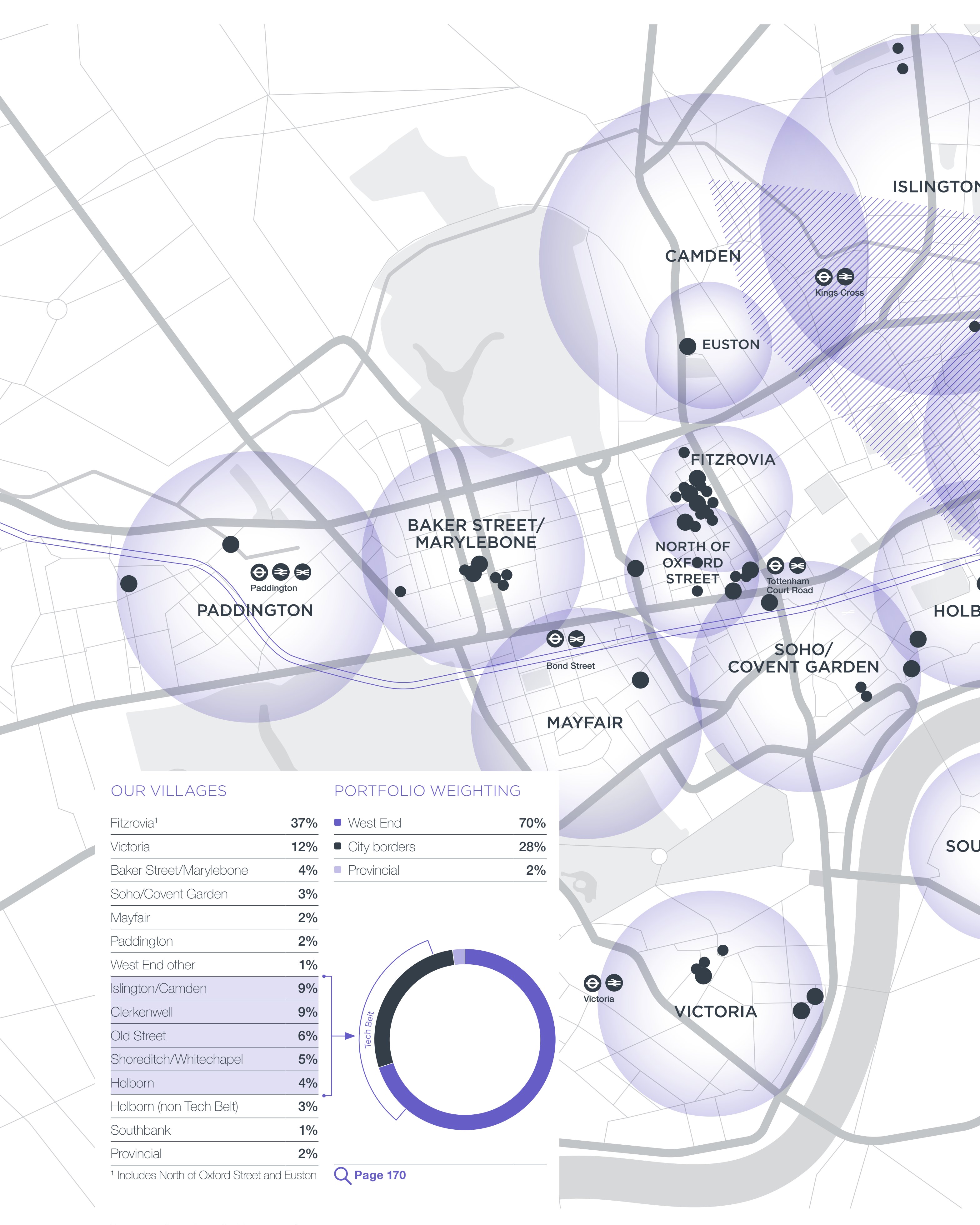
c.500
Tenants

33%
Portfolio weighting in Tech Belt

£4.2bn
Valuation of the portfolio

£131.7m
Net contracted rental income

£215.6m
Estimated rental value



OUR VILLAGES

Fitzrovia[1]	37%
Victoria	12%
Baker Street/Marylebone	4%
Soho/Covent Garden	3%
Mayfair	2%
Paddington	2%
West End other	1%
Islington/Camden	9%
Clerkenwell	9%
Old Street	6%
Shoreditch/Whitechapel	5%
Holborn	4%
Holborn (non Tech Belt)	3%
Southbank	1%
Provincial	2%

[1] Includes North of Oxford Street and Euston

PORTFOLIO WEIGHTING

West End	70%
City borders	28%
Provincial	2%

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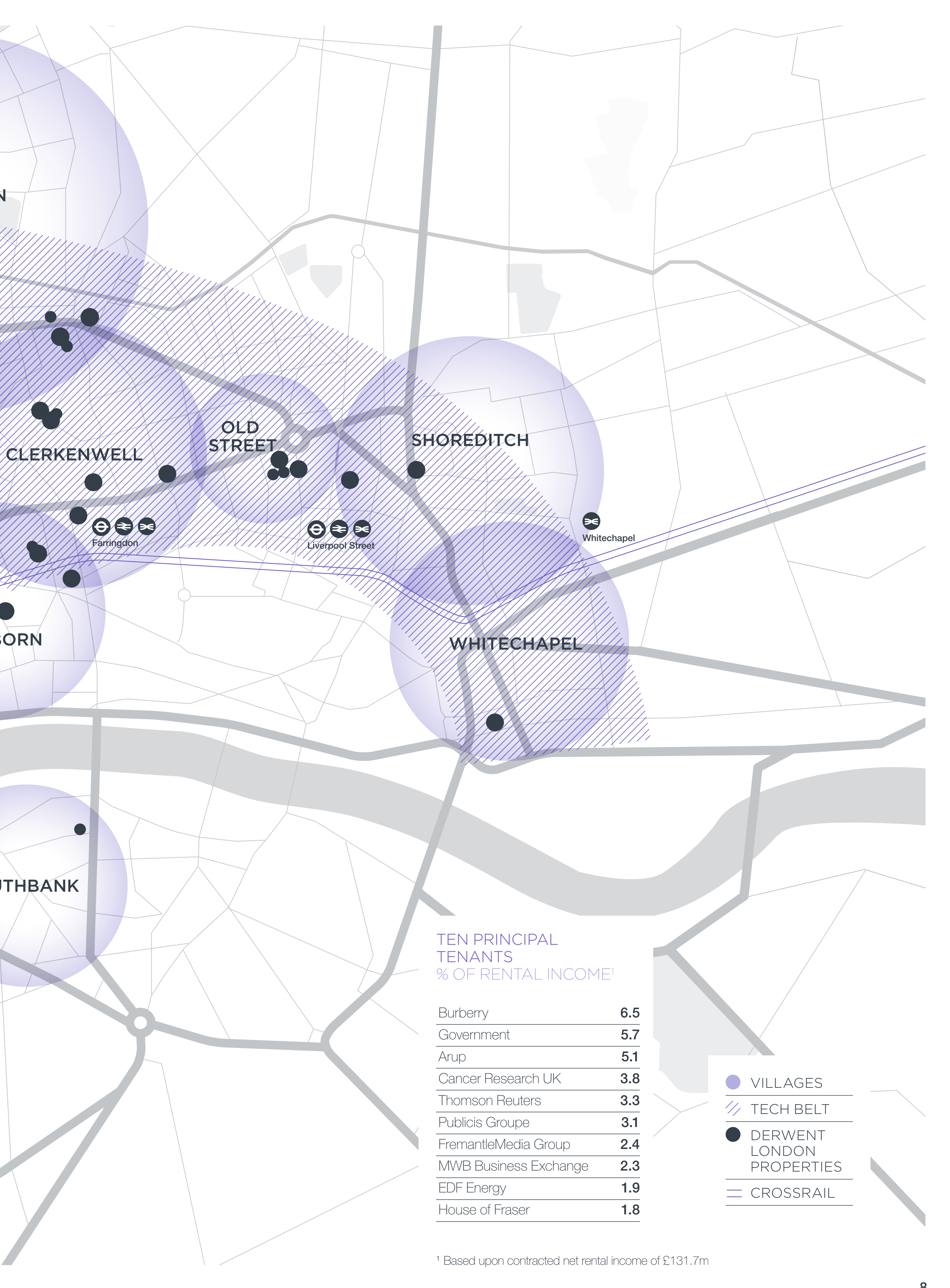
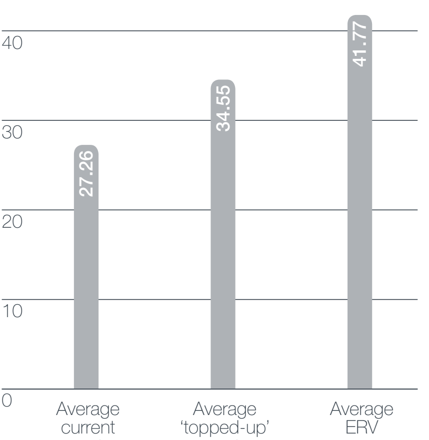


TEN PRINCIPAL TENANTS
% OF RENTAL INCOME[1]

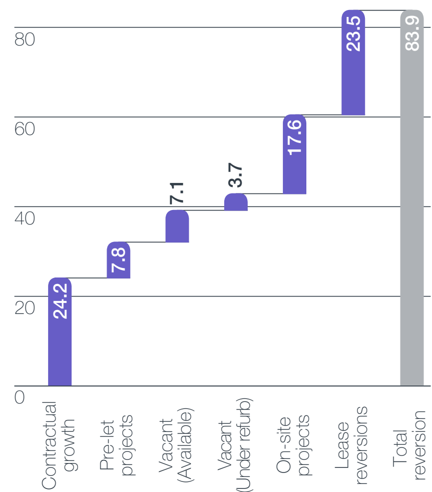
Tenant	%
Burberry	6.5
Government	5.7
Arup	5.1
Cancer Research UK	3.8
Thomson Reuters	3.3
Publicis Groupe	3.1
FremantleMedia Group	2.4
MWB Business Exchange	2.3
EDF Energy	1.9
House of Fraser	1.8

[1] Based upon contracted net rental income of £131.7m

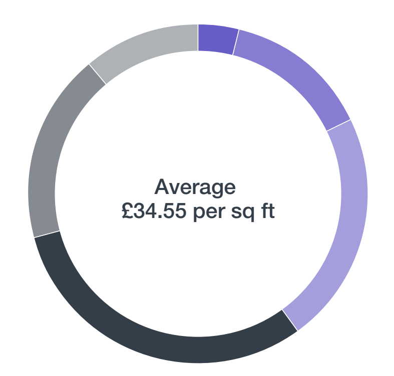
Central London office rent profile
£ per sq ft



Build-up of reversion rental uplift
£m



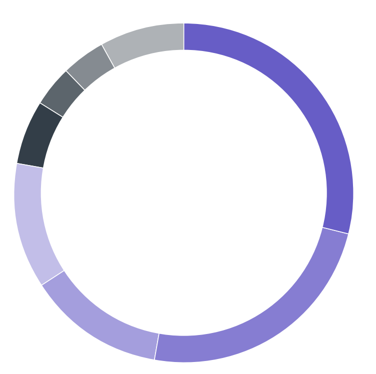
Office rent banding – 'topped-up' income[1] %



£0 – £20 per sq ft	4
£20 – £30 per sq ft	14
£30 – £40 per sq ft	22
£40 – £50 per sq ft	31
£50 – £60 per sq ft	18
£60+ per sq ft	11

[1] Expressed as a percentage of annualised 'topped-up' rental income

Profile of tenants' business sectors[2]
%



Media, TV, marketing and advertising	29
Professional and business services	24
Retail head offices, showrooms	13
Retail sales	12
Public sector	6
Charities	4
Financial	4
Other	8

[2] Expressed as a percentage of annualised rental income

OPEN HERE TO SEE LONDON PORTFOLIO

FINANCIAL HIGHLIGHTS
EPRA MEASURES

EPRA NAV per share

2,908p

2013: 2,264p

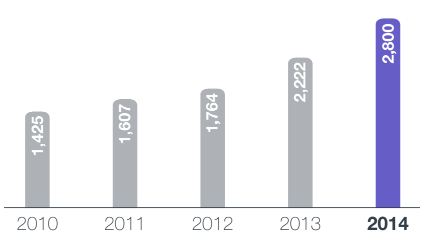
1,474 1,701 1,886 2,264 2,908

2010 2011 2012 2013 **2014**

EPRA NNNAV per share

2,800p

2013: 2,222p

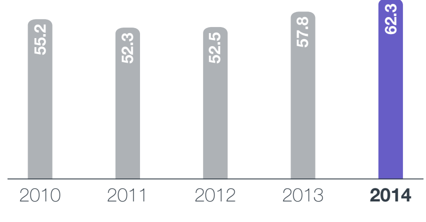


Read more:
please see finance review on page 62 and notes 38 to 40 for calculations

EPRA profit before tax

£62.3m

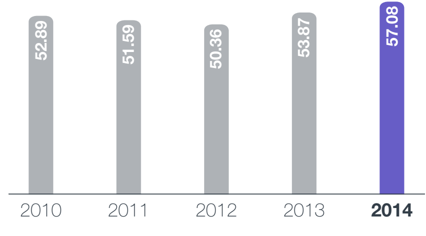
2013: £57.8m



EPRA earnings per share

57.08p

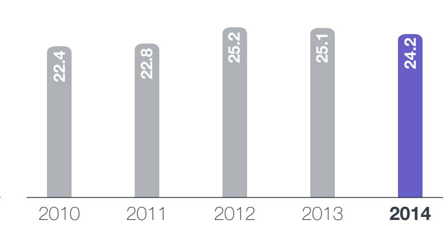
2013: 53.87p



EPRA cost ratio[1]

24.2%

2013: 25.1%



[1] Including direct vacancy costs

EPRA net initial yield

3.4%

2013: 4.2%

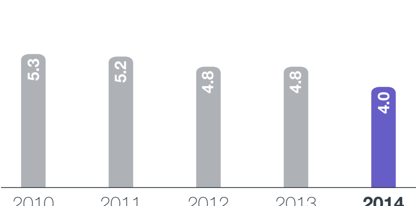
4.7 4.4 4.3 4.2 3.4

2010 2011 2012 2013 **2014**

EPRA 'topped-up' net initial yield

4.0%

2013: 4.8%



EPRA vacancy rate

4.1%

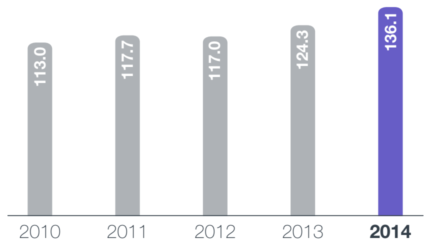
2013: 1.0%

OTHER MEASURES

Net property and other income

£136.1m

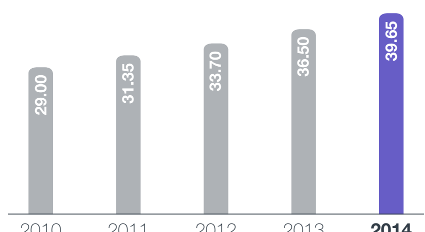
2013: £124.3m



Dividend per share

39.65p

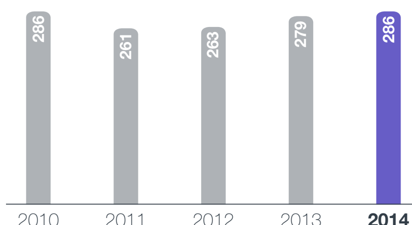
2013: 36.50p



Net interest cover ratio

286%

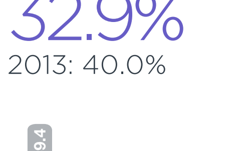
2013: 279%

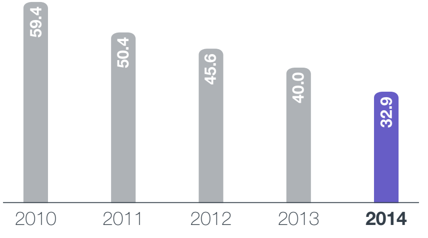


NAV gearing

32.9%

2013: 40.0%

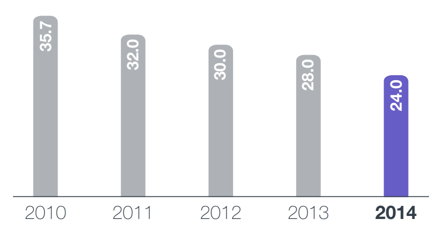




Loan-to-value ratio

24.0%

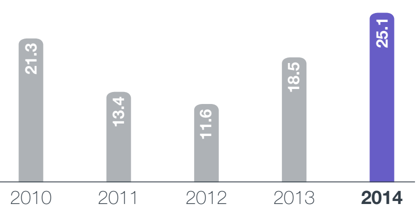
2013: 28.0%



Total property return

25.1%

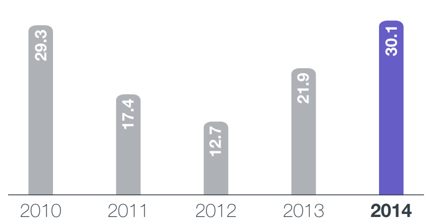
2013: 18.5%



Total return

30.1%

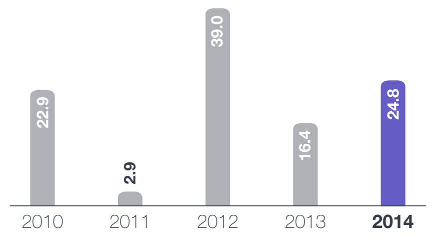
2013: 21.9%



Total shareholder return

24.8%

2013: 16.4%



CHAIRMAN'S STATEMENT

2014 was another positive year for Derwent London. We strengthened our income, our largest development programme is well underway and we continued to improve our strong financial platform.

ROBERT RAYNE
CHAIRMAN

"We see scant evidence so far of a commercial property slowdown in London and we expect to see rental growth at least maintained at 6-8% across the portfolio, and investment yields to remain firm in 2015."

Overview

I am pleased to report another very positive year for Derwent London in 2014. Aided by the exceptionally strong London property market the growth in net asset value (NAV) exceeded our expectations. Our long-term strategy of investing in innovative design-led projects in London's emerging villages appeals to occupiers and increasingly to investors, as the definition of London's core office locations continues to evolve. Our total return was 30% and, over the last two and five years, we have achieved total returns of 58% and 164%, respectively.

We strengthened our income in 2014 through the letting of 188,300 sq ft of space securing £9.2m of rental income. Overall lettings achieved rents 11.2% above December 2013 estimated rental values (ERV) with open market lettings 18.1% above that benchmark. Derwent London's year end annual net contracted rents have risen to £131.7m (up 4.5% in the year), and our ERV to £215.6m (up 9.4%). As a result of completing a number of developments in the latter part of 2014 our December EPRA vacancy rate rose to 4.1%. This level is higher than in recent years, but only slightly above the ten-year average of 3.3%. In current market conditions, this creates an opportunity to capture higher rents. Lettings since the year end, including 34,150 sq ft at 1-2 Stephen Street W1, have seen our vacancy rate fall to 2.1%.

Derwent London's largest development programme to date is well underway having spent £122m on projects in 2014. In October we finished Queens W2, a residential scheme, where we have sold approximately half the apartments by value. In 2015 we have already completed Turnmill EC1 and are soon to deliver 40 Chancery Lane WC2 to Publicis, who pre-let both office buildings. The iconic White Collar Factory EC1 is on track for completion in the second half of 2016.

We are also progressing new development projects. Work has commenced on 105,000 sq ft at The Copyright Building, 25-33 Berners Street W1, which only received planning consent in October 2014, and where we recently finalised terms for a new headlease with the freeholder. In January 2015 we submitted a planning application to redevelop Wedge House, 40 Blackfriars Road SE1 as a 110,000 sq ft hotel and offices. Later in the year we expect to start our largest project at 80 Charlotte Street W1 (380,000 sq ft), which will become a landmark building in the heart of Fitzrovia. During 2015 we will also be securing vacant possession of 55-65 North Wharf Road W2 prior to commencing development of 240,000 sq ft in 2016. We estimate we will spend £329m on developments in the next two years alone. Beyond that our portfolio holds numerous additional opportunities capable of supporting significant development activity over the next decade.

Derwent London believes in recycling its assets. During the year we sold five smaller office properties for £98.0m at an average premium of 40% to December 2013 values. Sales were almost matched by the acquisition of two properties, both close to existing holdings, for £90.9m. The larger acquisition was Angel Square EC1, a prominent 128,700 sq ft corner building opposite our highly successful Angel Building, which represents a major opportunity to further regenerate this part of Islington.

During 2014 we continued to improve our strong financial platform taking advantage of relatively attractive financial markets. In January 2014 we drew down £100m from our US private placement in 15 and 20 year notes thereby enhancing our debt maturity. In December we extended the term of our £550m unsecured bank facility and reduced the margin. We also called our option for the early redemption of the £175m 2.75% convertible bonds 2016. As expected all the bondholders opted to convert, leading to the issue of 7.9m new shares in January 2015. Adjusting for the new equity the proforma year end loan-to-value ratio (LTV) falls from 24.0% to 19.9% and our earliest debt expiry is now in 2017. At the year end we had cash and undrawn debt facilities of £336m.

Financial results

Our property portfolio increased in value to £4.2bn. The total revaluation gain of £671.9m was the main component of our 28.4% growth in fully diluted EPRA NAV per share to 2,908p.

The growth in our annual profits reflects a buoyant letting programme and the major capital investment we have made over the last few years. Our reported net rents rose 5.8% to £128.7m resulting in an improvement to our interest cover ratio to a very comfortable 2.9 times. EPRA profit before tax increased 7.8% to £62.3m, and EPRA earnings per share improved by 6.0% to 57.08p.

Operationally and financially the Group is in a strong position and, as a result, we have raised the final dividend to 28.0p per share, an increase of 8.7%. The final dividend will be paid on 12 June 2015 to shareholders on the register on 8 May 2015. Of this, 22.35p will be paid as a PID under the UK REIT regime, and there will be a scrip alternative. The resultant dividend for the full year will be 39.65p per share, an increase of 8.6% over 2013.

CHAIRMAN'S STATEMENT
CONTINUED

The Board
Robert Farnes, who has served as a non-executive Director of the Company since 2003, is due to step down from the Board at the forthcoming AGM in May 2015. I would like to thank him for his advice and sound judgement throughout this period. The process of refreshing the Board is continuing and we anticipate making further announcements over the next few months.

Our people
These results would not have been possible without the continued expertise and dedication of the Derwent London team. We have increased our staff numbers over the last few years to support our greater development commitment, and it is pleasing to see that the Derwent London business culture continues. This approach has gained external recognition again with the Group once more featuring in the Management Today awards for 'Britain's Most Admired Companies', where in 2014 we topped the property sector for the fifth consecutive year, and were placed ninth across all sectors.

Outlook
The London commercial property market is set for continued growth with low availability, manageable supply and strong occupier and investor demand. Looking forward London's economy is expected to grow at around 3% per annum on average over the medium term. As a result, the outlook remains good and we expect to see rental growth maintained at 6-8% across the portfolio and investment yields to remain firm in 2015.

We are very confident in our business and markets, and our financial position has been strengthened further. We are aware of rising external risk factors in the last twelve months. For London property specifically, these include a continuing slowdown in the top-end residential market and increasing construction costs. Other more general factors are the moderation of economic growth and business confidence outside the USA, the uncertainty surrounding the UK General Election on 7 May, a possible future UK referendum on EU membership and the heightened levels of terrorist risk. Whilst some of these risks can make property income flows more attractive to investors, we believe that long-term stable economic growth is the best background for sustained improvement in our operating performance.

28.4%
increase in EPRA net asset value per share

7.8%
increase in EPRA profit before tax

8.6%
increase in dividend per share

"We remain very confident in our business and our markets, and over the next few years look forward to delivering a substantial phased development programme to meet occupier demand."

Overall we see scant evidence so far of a commercial property slowdown in London and we remain determined to benefit from these positive conditions. Our view is supported by the substantial progress the Group has already made in 2015. So far this year we have:

- Let 34,150 sq ft to The Office Group at 1-2 Stephen Street W1.
- Pre-let 57,600 sq ft to Expedia at Angel Square EC1.
- Completed Turnmill EC1 handing over 58,200 sq ft of offices to Publicis.
- Started the 105,000 sq ft development at The Copyright Building W1.
- Applied for planning permission to develop a 110,000 sq ft hotel and office scheme at 40 Blackfriars Road SE1.
- Acquired 20 Farringdon Road EC1 adjoining Farringdon Crossrail station in a property swap transaction.
- Increased our equity base by £175m following early conversion of our 2016 convertible bonds.

This activity has put the Group in an excellent position to start our largest development of 380,000 sq ft at 80 Charlotte Street W1 later in 2015, as well as committing to future projects such as 55-65 North Wharf Road W2. We expect the current year to be another positive one for Derwent London and that, once more, the implementation of our strategy will be supported by a favourable property market to produce strong returns for our investors.

ROBERT A. RAYNE
26 FEBRUARY 2015

OUR MARKET

London economic outlook remains good

6-8% rental increase expected for 2015

Property yields expected to remain firm in 2015

DERWENT LONDON

Property portfolio well-positioned for growth:
- significant reversions
- increased development activity
- extensive development opportunities

Financial platform suitable for raised activity

2

STRATEGIC REPORT

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OUR BUSINESS MODEL AND STRATEGY

Strategy determines how best to use our business model and expertise to deliver our principal objective of providing above average long-term returns to our shareholders.

JOHN BURNS
CHIEF EXECUTIVE OFFICER

"We stick to the markets we know best and our insights help us find relative value and to invest in up-and-coming areas."

Derwent London's strategy has a number of strands which we have applied consistently over many years:

- Focus on central London: we stick to the markets we know best, and our insights help us to find relative value and to invest in up-and-coming areas. We have created a number of property clusters and substantial parts of our portfolio will benefit from the opening of Crossrail in 2018, or are located in the Tech Belt. We have avoided the core City office market which is dominated by financial services.
- Focus on good design: we look at each building individually and in its own context. We believe that good architecture helps create demand, that it is important to be innovative, and to continually improve quality.
- Focus on sustainability: we expect to have a positive impact on the surrounding area and to ensure that schemes are efficient and not overspecified.
- Focus on occupier needs: we offer a wide range of office accommodation, rental levels and lease structures. An active relationship with our occupiers helps inform our views and can create fresh letting opportunities.
- Experienced management: we have a dedicated team that is divided into specialist activities in line with the business model: acquisitions/disposals, development, asset management and finance. Over many years we have built up good relationships with a significant number of third party professionals, who share our passion, and help us achieve our objectives.

"We believe that our consistency and strong focus on design has helped create a brand for Derwent London."

- Group perspective: although all properties are treated individually, decisions are taken in the context of the Group as a whole. This is to ensure that there is the relevant balance between income and development, that the scale and pace of development activity is appropriate to the larger Group, that the longer-term growth potential remains intact and that the Group has the financial resources to adapt to different market conditions.

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- Long-term perspective: from its very origins Derwent London has had a vision to become a significant and active London landlord. This reinforces our commitment to quality, allows us to sacrifice initial returns for long-term gains, and to build good relationships with occupiers, communities and local authorities.
- We believe that our consistency and strong focus on design has helped to create a brand for Derwent London.
- For REITs, market conditions naturally change as a result of the property cycle. We aim to increase our development risk and activity while reducing financial leverage into a rising property market, and vice versa in a falling market. Ideally, our lowest leverage is near the peak and our maximum leverage near the floor. History shows this is hard to get absolutely right, and we continually monitor the market, particularly after a long period of growth, to ensure that our strategy is consistent with our view of the cycle.

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We give more details on individual strategies below.

OUR BUSINESS MODEL

Our principal objective is to deliver above average long-term returns to shareholders through owning, creating and managing well-designed central London offices benefiting occupiers and neighbourhoods.

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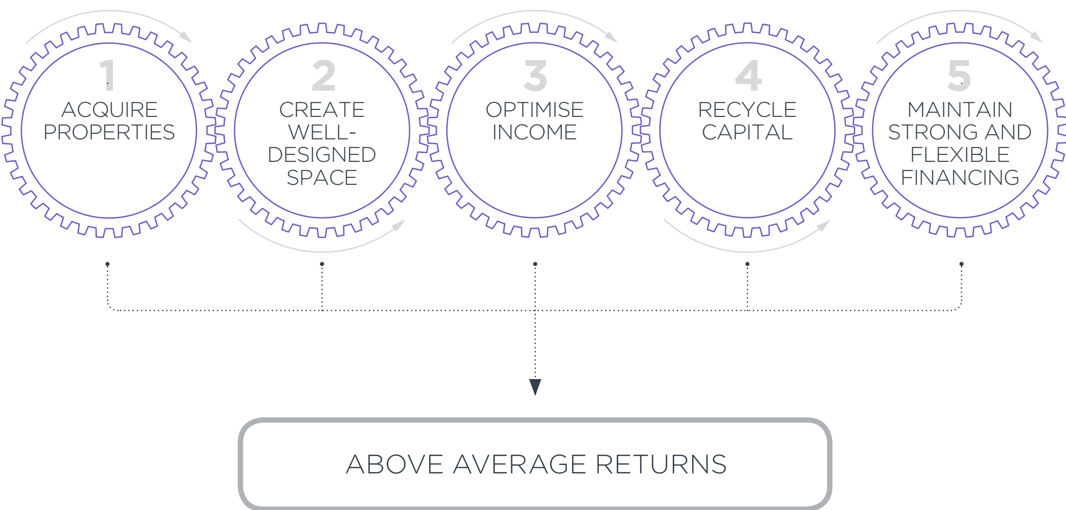

OUR BUSINESS MODEL AND STRATEGY
CONTINUED

OUR BUSINESS MODEL	OUR STRATEGIES	OUR ACHIEVEMENTS IN 2014
ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE	■ Buy at low capital values in improving locations, using our detailed understanding of London ■ Add to our pipeline of future opportunities, and maintain that proportion of our portfolio at around 50%	■ Acquired 19-23 Featherstone Street EC1 opposite our White Collar Factory EC1 ■ Acquired Angel Square EC1 opposite our Angel Building EC1
CREATE WELL-DESIGNED SPACE	■ Create attractive, adaptable offices avoiding over-specification ■ Build green features into our developments to reduce environmental impact and increase their appeal ■ Invest in public realm to provide desirable spaces for occupiers and communities ■ Work with top architects to design fresh and modern spaces	■ Completed 1-2 Stephen Street W1 and Queens W2 ■ Construction started on White Collar Factory EC1 ■ Planning received on The Copyright Building, 25-33 Berners Street W1 and 25 Savile Row W1
OPTIMISE INCOME	■ Understand occupiers' needs by building strong relationships through regular dialogue ■ Respond to occupiers' needs by altering lease lengths or by relocating them within the portfolio ■ Ensure income growth by incorporating minimum rental uplifts in some leases	■ Secured £9.2m of rental income 11.2% above December 2013 ERV
RECYCLE CAPITAL	■ Regularly review the status and options for each property in the portfolio ■ When market conditions are favourable, dispose of assets where: ■ future growth is limited ■ they are non-core	■ Sold Jaeger House W1 prior to redevelopment 32% above December 2013 value ■ Sold four smaller properties for 45% surplus over December 2013 values
MAINTAIN STRONG AND FLEXIBLE FINANCING	■ Ensure sustainable interest cover ■ Ensure appropriate level of gearing for market conditions and our development activity ■ Provide significant protection from rising interest rates ■ Maintain good relationships with a broad spread of funding sources ■ Extend loan maturities when rates are attractive	■ Drew down £100m US Private Placing ■ Refinanced bank facility to extend maturity and reduce margin payable ■ Net interest cover 286% ■ LTV ratio 24.0%

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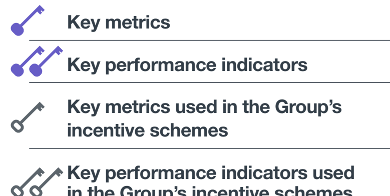
Page 4



<table>
<tr><th>AREAS OF FOCUS IN 2015</th><th colspan="2">PRINCIPAL RISKS</th><th colspan="4">KEY PERFORMANCE INDICATORS AND METRICS</th></tr>
<tr><td>■ Continue to seek acquisitions that meet our criteria of:
■ low passing rents and capital values
■ improving locations
■ refurbishment/redevelopment potential
■ income producing while working up plans
■ often in close proximity to another Group property</td><td></td><td rowspan="5">Inconsistent strategy
Regulatory non-compliance
Reputational damage
Shortage of key staff
Inefficient systems
Business interruption</td><td colspan="2">Interest cover ratio
Development potential
Capital return</td><td rowspan="4">Total property return</td><td rowspan="5">Total return
Total shareholder return</td></tr>
<tr><td>■ Complete Turnmill EC1, 40 Chancery Lane WC2, Tottenham Court Walk W1 and 73 Charlotte Street W1
■ Commence The Copyright Building W1 and 80 Charlotte Street W1
■ Submit planning application for Wedge House SE1</td><td>Inconsistent development programme
Property yields rise
Reduced development returns
Shortage of future developments</td><td colspan="2">BREEAM rating
EPC ratings
Capital return</td></tr>
<tr><td>■ Let recently completed offices at 1-2 Stephen Street W1 and retail space at Tottenham Court Walk W1
■ Monitor portfolio for further asset management initiatives</td><td>Tenant default</td><td>Tenant receipts
Reversionary percentage
Tenant retention</td><td>Void management
Diversity of tenants</td></tr>
<tr><td>■ Sell remaining Queens W2 units, and start to market units at 73 Charlotte Street W1
■ Monitor portfolio for further opportunities to recycle capital</td><td>Property yields rise</td><td colspan="2">Interest cover ratio
Capital return</td></tr>
<tr><td>■ Conversion of £175m 2.75% convertible bonds 2016 into new shares
■ Monitor interest cover and maintain balance between income generation and development activity</td><td></td><td colspan="2">Interest cover ratio
NAV gearing
LTV ratio</td><td></td></tr>
</table>

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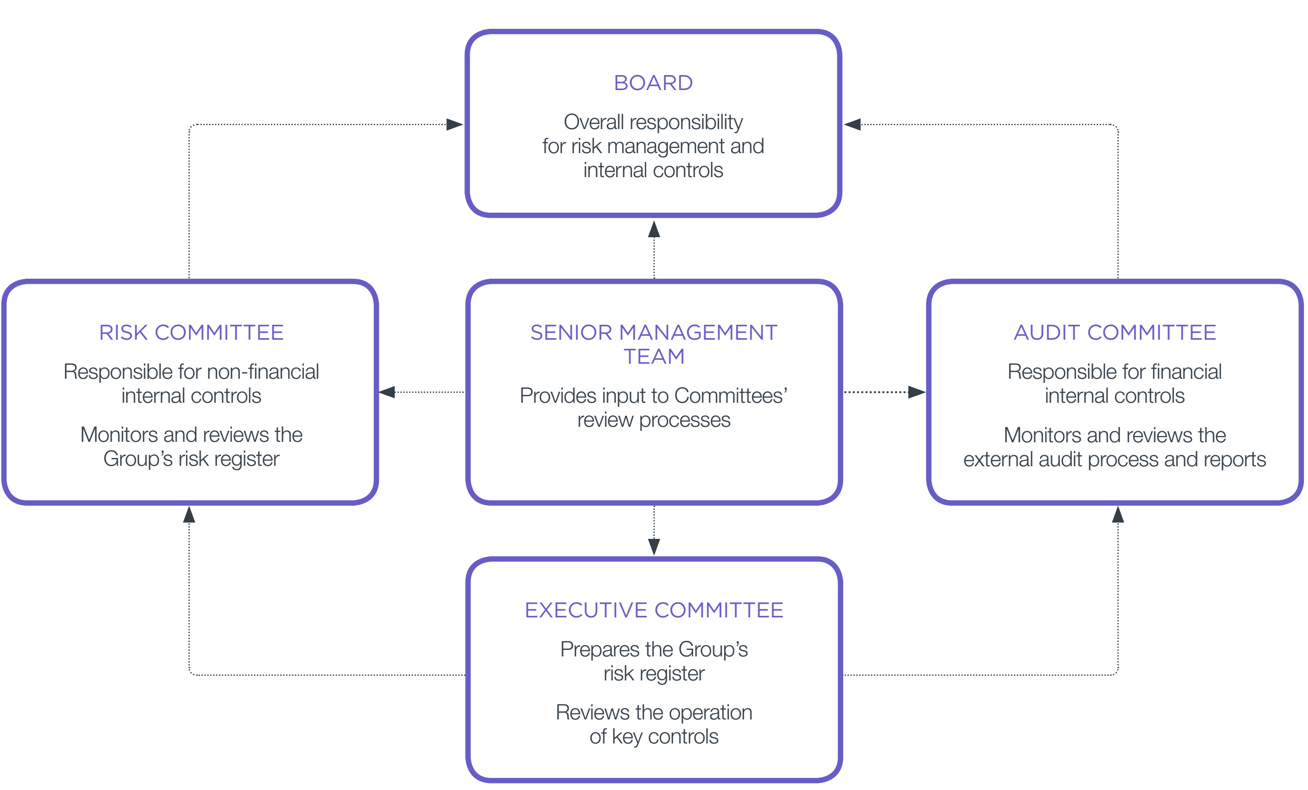
RISK MANAGEMENT

Derwent London aims to deliver above average long-term returns to shareholders whilst operating within an acceptable risk envelope. The Board recognises that there are inherent risks in running any business and to ensure that the Group's risk appetite is not exceeded, a risk management system is required to ensure these risks are identified, understood and managed.

RISK ORGANISATIONAL STRUCTURE

Overall responsibility for risk management rests with the Board which has delegated responsibility for assurance concerning the process to the Audit Committee and the Risk Committee. Executive management is responsible for designing, implementing, maintaining and evaluating the necessary systems of internal control. The following diagram illustrates the Group's risk management structure:



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

The third party review of the Group's risk management process undertaken at the end of 2013 resulted in a phased programme of improvements. Those that were applicable to the preparation and reporting of the Group's risk register were introduced during the 2013 review of the register and were further refined during the 2014 review which was undertaken during September, October and November 2014.

The review also made further recommendations concerning the documentation of the Group's risk management process and, accordingly, during the year a Group Risk Appetite Statement, a Risk Management Policy document and a Risk Management Process document have been prepared by the Executive Committee, approved by the Risk Committee and adopted by the main Board.

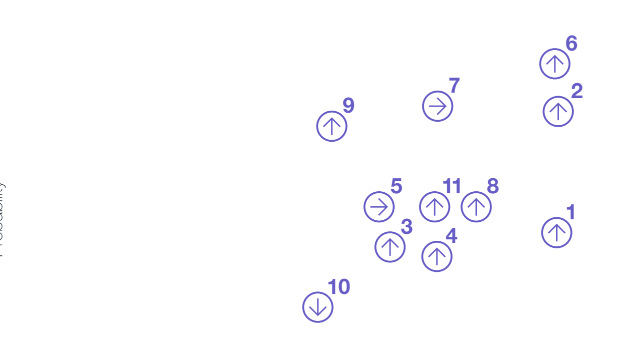
The Group's risk register continues to be the core element of the risk management process. The register is prepared by the Executive Committee which initially identifies the risks facing the Group and then collectively assesses the likelihood of each risk, the impact on the Group over different aspects of the business and the strength of the controls operating over the risk. This approach allows the effect of any mitigating procedures to be reflected in the final assessment. It also recognises that risk cannot be totally eliminated at an acceptable cost and that there are some risks which, with its experience, the Board will, after due consideration, choose to accept. The register, its method of preparation and the operation of the key controls in the Group's system of internal control have been reviewed by the Audit and Risk Committees. In order to gain a more comprehensive understanding of the risk management process and how it applies to particular parts of the Group's business, the Risk Committee periodically receives presentations from senior managers.

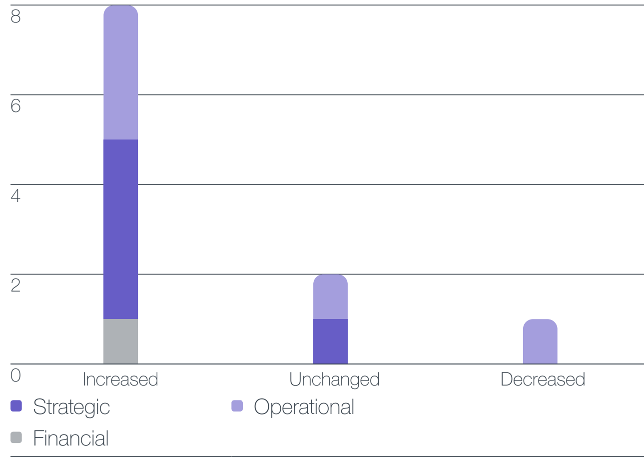
In response to the 2014 update to the UK Corporate Governance Code, the Group has revised its procedures to ensure that the necessary monitoring of risks and controls will be carried out throughout 2015.

The current risk register includes 46 risks spread between strategic risks, operational risks and financial risks.

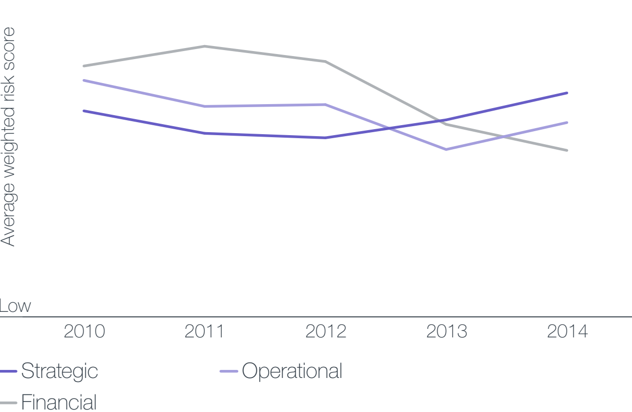
The principal risks and uncertainties faced by the Group in 2015, together with the potential effects, controls and mitigating factors, are set out on the following pages.

2014 major risks





Average risk by category



RISK MANAGEMENT
CONTINUED

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

Risk, effect and progression	Controls and mitigation	Action
1. Inconsistent strategy The Group's strategy is inconsistent with the state of the market in which it operates. **2. Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. The Group continues to benefit from a strong central London market. However, this could be adversely affected by a number of high level economic factors which would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – total return and total property return. The Board sees the level of both these risks as slightly higher than last year. 	■ The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios of changes to the main underlying assumptions reflecting different economic scenarios. ■ The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility is largely due to the Group's policy of maintaining income from properties for as long as possible until development starts. ■ The level of future redevelopment opportunities identified 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.	■ The last annual strategic review was carried out by the Board in June 2014. This considered the sensitivity of six key measures to changes in underlying assumptions including 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. ■ Over 50% of the Group's portfolio has been identified for future redevelopment. ■ During the year the Group's loan-to-value ratio remained below 28%, its net interest cover ratio was above 275% and the REIT ratios were comfortably met.
3. Shortage of future developments A lack of suitable development opportunities leads to the Group paying a price that results in lower future returns. This would affect the Group's total return and total property return KPIs. The level of risk has increased from last year. 	■ The development opportunities within the Group's portfolio enable the Board to defer acquisitions until more properties become available at an appropriate price level. ■ The scale of the central London property market means that suitable properties should always be available.	■ Over 50% of the Group's portfolio has been identified for future redevelopment. ■ The Group made principal acquisitions of £90.9m which enhance its holdings in two 'villages'. It has also acquired a major new property through a property 'swap', in 2015.
4. 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. This risk has increased marginally due to the increased scale of the Group's development activity and the associated increase in Health and Safety risks. 	■ The Group's Risk Committee reports to the Board concerning regulatory risk. ■ The Group employs a Health and Safety Manager who reports to the Board. ■ The Group employs a Sustainability Manager who reports to the sustainability committee which is chaired by Paul Williams. ■ The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. ■ Members of staff attend external briefings in order to remain cognizant of 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 Sustainability Manager. ■ The Group pays considerable attention to sustainability issues and produces an annual sustainability report. ■ The Group has reviewed and revised its whistleblowing policy during the year.

Strategic risks (continued)

Risk, effect and progression	Controls and mitigation	Action
5. Reputational damage The Group's reputation is damaged through unauthorised and inaccurate media coverage. This risk would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to be broadly the same as last 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
6. Increase in property yields Increases in interest rates can lead to higher property yields which would cause property values to fall. This would affect the following KPIs: ■ Loan-to-value ratio. ■ Total return. ■ Total property return. Interest rates have remained low for an extended period of time and yields have decreased during the year. Interest rates 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 and therefore the Board considers this risk to have increased during the year due to further recent reductions in yields. 	■ The impact of yield changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved. ■ The management of the Group's financial covenants has been simplified by changes to its financing profile over the last two years. ■ The impact of yield changes is considered when potential projects are appraised.	■ The Group produces three rolling forecasts each year which contain detailed sensitivity analyses. ■ Quarterly management accounts report on the Group's performance against covenants. ■ Project appraisals are regularly reviewed and updated.

Key

- Risk increase
- Risk unchanged
- Risk decrease

RISK MANAGEMENT
CONTINUED

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
7. Reduced development returns The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: • delays in the planning process • delays due to contractors/sub-contractors defaulting • increased construction costs • adverse letting conditions This would have an effect on the Group's total return and total property return KPIs. The Board considers this risk to have remained broadly the same over the last year. 	• Standardised appraisals which include contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group's development programme is managed to reflect anticipated market conditions. • Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget and timetable. This allows potential adverse variances to be identified and addressed at an early stage. • The Group uses contractors/sub-contractors that it has previously worked with successfully whenever 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. • Alternative procurement methods are evaluated as a way of minimising the impact of increased construction costs.	• The Group is advised by leading planning consultants and has considerable in-house planning expertise. • Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. • The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing. • The Group's style of accommodation remains in demand as evidenced by the 60 lettings achieved in 2014 which totalled 188,300 sq ft. • The Group has often secured significant pre-lets of the space in its development programme which significantly 'de-risks' those projects. • The Group's cost committee meets on a weekly basis to consider new budget requests or amendments.
8. Inefficient systems The Group's systems and in particular its IT infrastructure are not developed quickly enough to support the business as it changes and grows or new systems are not implemented effectively. This would lead to increased costs or reduced returns which would affect the Group's total return KPI. Due to the expansion of the Group and increases in the rate of change in IT, this risk is considered to have risen over the year. 	• The Group's IT department has been expanded over the last two years to improve the Group's ability to develop its systems. • A steering group has been established from all parts of the business to identify and prioritise requirements. • The proximity of members of the Executive Committee to the day-to-day operations helps identify IT requirements. • System improvements are considered as part of the five-year strategic review.	• The IT department now consists of three people. • The IT steering group met five times during the year. • The IT manager attends meetings with representatives from similar companies in order to share knowledge. • External consultants are used to assist with the implementation of most new systems.
9. Business interruption The Group suffers either a successful cyber-attack or disaster that results in it being unable to use its IT systems. This would lead to an increase in cost 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. Due to the Group's increased dependence on IT systems, this risk is seen to have increased over the year. 	• The Group's IT systems are protected by anti-virus software and firewalls which are continually updated. • The offsite back-up IT infrastructure has been tested. • A disaster recovery suite has been established.	• Internal and external penetration tests are regularly conducted to assess the effectiveness of the firewalls. • A staff awareness programme has been rolled out to alert staff to the techniques that may be used to gain unauthorised access to the Group's systems. • The Group's Business Continuity Plan is being reviewed and updated by external consultants.

Operational risks (continued)

Risk, effect and progression	Controls and mitigation	Action
10. Tenant default The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. This risk would have an immediate effect on the Group's tenant receipts and void management KPIs and, if significant, on the total property return, total return and interest cover ratio. The Board considers this risk to have marginally decreased over the last year 	■ All prospective tenants are considered by the Group's Credit Committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. ■ The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. ■ The Group's Credit Committee regularly reviews a list of slow payers and considers what actions should be taken. ■ The Board regularly considers the merits of tenant default insurance.	■ The Group has a diversified tenant base. ■ The Credit Committee meets each week and considered 113 potential lettings during the year. ■ In total the Group holds rental deposits amounting to £10.6m. ■ On average in 2014, the Group collected 99% of the rents due within 14 days of the due date.
11. Shortage of key staff The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills. This risk could impact on any or all of the Group's KPIs. The risk is seen to have marginally increased over the year. 	■ The remuneration packages of all employees are benchmarked regularly. ■ Six-monthly appraisals identify training requirements which are fulfilled over the next six months. ■ 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 Group recruited 11 new members of staff during 2014. ■ Staff turnover during 2014 was low at 8%.

Key

Risk increase

Risk unchanged

Risk decrease

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of five years, which was selected for the following reasons:

i) The Group's strategic review covers a five-year period.

ii) For a major scheme five years is a reasonable approximation of the maximum time taken from obtaining planning permission to letting the property.

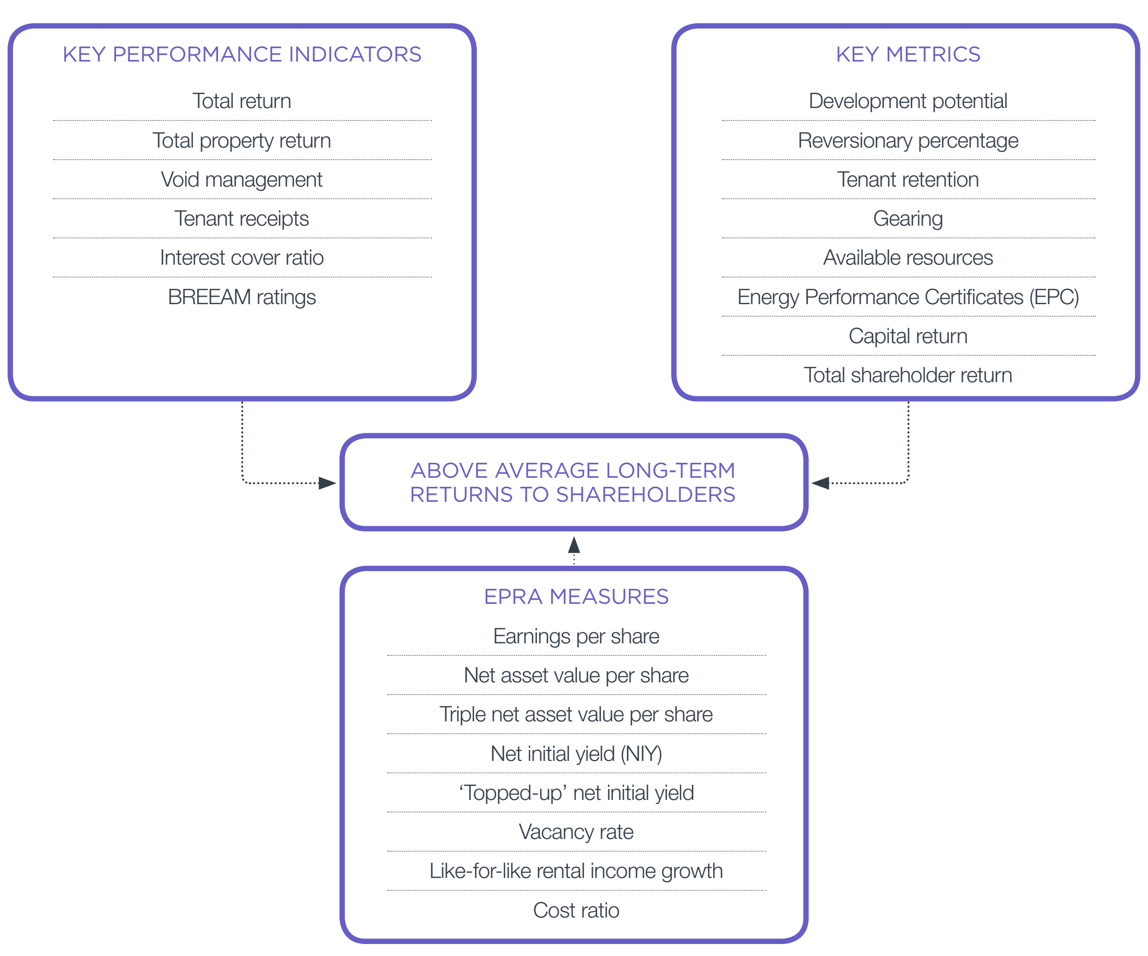
iii) Most leases contain a five-year rent review pattern and therefore five years allows for the forecasts to include the reversion arising from those reviews.

The five-year strategic review considers the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring. The five-year review also makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

MEASURING OUR PERFORMANCE

Our objective is to provide above average long-term returns to shareholders through the execution of our strategy. In order to assess the effectiveness of the different strands of this strategy, we measure our performance in a number of different ways.



We have established a set of Key Performance Indicators (KPIs) which are measured against relevant external and internal benchmarks. In addition to these KPIs, we also use additional metrics as well as the various EPRA performance measures to monitor the performance of the business. For definitions please see pages 172 and 173.

Link to remuneration

There is a clear link from our performance measures to the remuneration structure of senior management.

These performance measures are reflected in the revised remuneration structure of senior management as follows:

Bonus scheme

The Group's bonus scheme takes into account the total return and the total property return together with a number of other key metrics referred to above.

Page 103

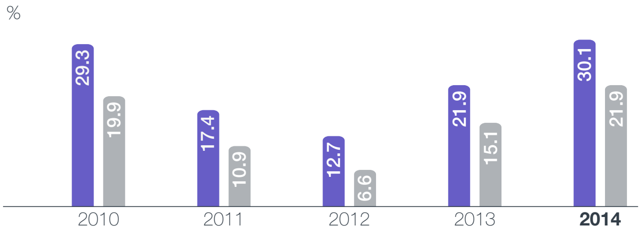
Long-term incentive plan

The vesting level of half an annual award depends on the Group's total shareholder return compared to that of a group of comparator companies. The vesting level of the other half reflects the Group's total property return compared to the IPD index.

Page 104

Total return

Our total return reflects the combined effectiveness of all the strands of our strategy. It equates to the combination of NAV growth plus dividends paid during the year and we aim to exceed the average of the other major UK REIT companies.



- Derwent London
- Weighted average of major UK REIT companies

Our performance

In 2014 our total return of 30.1% again comfortably exceeded our benchmark, the average of the other major REITs. Our cumulative performance over the past five years was 171% compared to the benchmark of 99%.

Strategies measured:

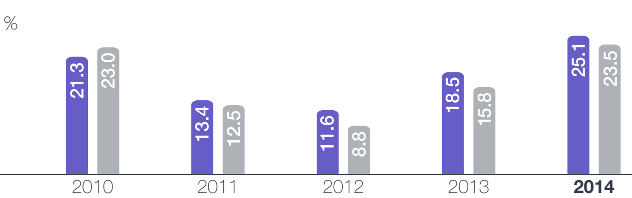
Page 62

- Acquire properties
- Create well-designed space
- Optimise income
- Recycle capital
- Maintain strong and flexible financing

Total property return (TPR)

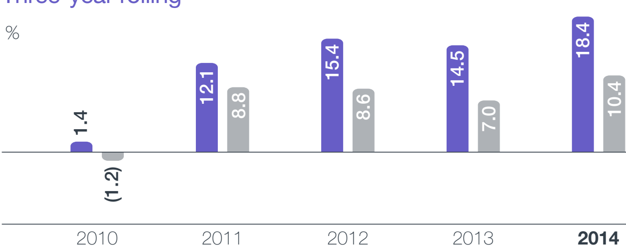
Our total property return gives an indication of the effectiveness of all the property related strands of our strategy. We aim to exceed the IPD Central London Offices Index on an annual basis and the IPD All UK Property Index on a three-year rolling basis.

Annual



- Derwent London
- IPD Central London Offices Index

Three-year rolling



- Derwent London
- IPD All UK Property Index

Our performance

We exceeded both of our IPD benchmarks again in 2014. Over the past five years we have exceeded the IPD Central London Offices Index and the IPD All UK Property Index by 12% and 61% respectively.

Strategies measured:

Page 40

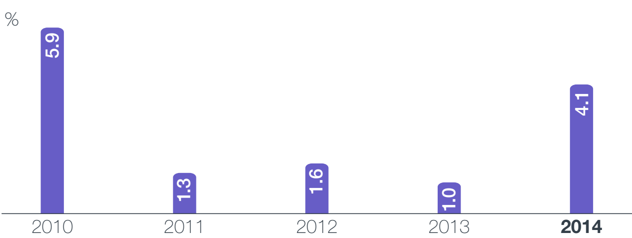
- Acquire properties
- Create well-designed space
- Optimise income
- Recycle capital

MEASURING OUR PERFORMANCE
CONTINUED

KEY PERFORMANCE INDICATORS CONTINUED

Void management

To optimise our rental income we plan to minimise the space immediately available for letting. We aim that this should not exceed 10% of the portfolio's estimated rental value.



Our performance

Due to our letting success over the past few years, the EPRA vacancy rate has remained consistently low and well below our maximum guideline of 10%. The rate of 4.1% at the year end has subsequently fallen to 2.1% as a result of lettings in 2015.

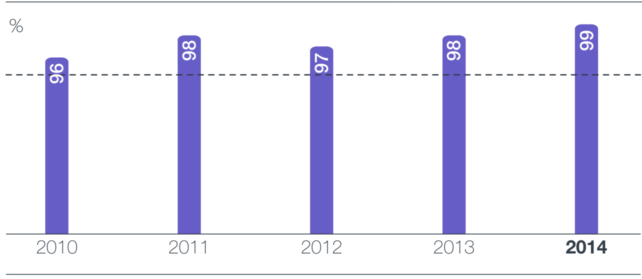
Strategies measured:

Page 43

- Optimise income

Tenant receipts

To maximise our cash flow and minimise any potential bad debts we aim to collect more than 95% of rent invoiced within 14 days of the due date.



--- Benchmark

Our performance

Due to the quality of our tenants and the performance of our credit control, rent collection has remained high over the past five years and consequently the level of defaults has been de minimis.

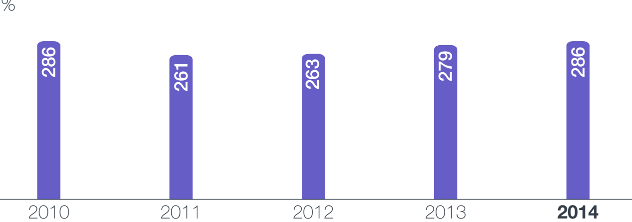
Strategies measured:

Page 43

- Optimise income

Interest cover ratio

We aim for our interest payable to be covered at least 1.5 times by net rents. The basis of calculation is similar to the covenant included in the loan documentation for our unsecured bank facility. Please see note 40 for the calculation of this measure.



Our performance

The net interest cover ratio comfortably exceeded our benchmark of 150% in each of the past five years.

Strategies measured:

Page 66

- Acquire properties
- Recycle capital
- Maintain strong and flexible financing

BREEAM ratings

Sustainability has always been at the heart of Derwent London's business model. It is important that our buildings are attractive to tenants and that they are also environmentally sound and efficient. BREEAM is an environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Pass, Good, Very good, Excellent and Outstanding. We target that all of our developments in excess of 5,000m² should obtain a minimum BREEAM rating of 'Very good'.

	Completion	Rating
1-2 Stephen Street W1	2013/14	Very good
Turnmill EC1	Q1 2015	Excellent
40 Chancery Lane WC2	Q2 2015[1]	Excellent
Tottenham Court Walk W1	Q2 2015[1]	Very good

[1] Expected

Our performance

We are pleased that our completions in 2014 met our benchmark. We expect all our 2015 projects to maintain this high performance.

Strategies measured:

Page 70

- Create well-designed space

Diversity of tenants

A diverse tenant base, both in number and across different industries, protects our income stream. This spread is monitored regularly and is shown in the graph on page 9.

Development potential

We monitor the proportion of our portfolio with the potential for refurbishment or redevelopment to ensure that there are sufficient opportunities for future value creation in the portfolio.

%	2010	2011	2012	2013	**2014**
	51	51	53	55	**52**

Our performance

The percentage of our portfolio which is available for redevelopment, regeneration or refurbishment was 52% at the end of 2014 and has remained above 50% for the past five years.

Strategies measured:

Page 47

- Acquire properties
- Recycle capital

Reversionary percentage

This is the percentage by which the cash flow from rental income would grow were the passing rent to be increased to the estimated rental value. It is used to monitor the potential future income growth of the Group.

%	2010	2011	2012	2013	**2014**
Reversion	27	42	46	56	**64**

Our performance

The 64% reversion in the portfolio demonstrates the growth potential in our income stream.

Strategies measured:

Page 40

- Optimise income

Tenant retention

Maximising tenant retention following tenant lease breaks or expiries, minimises void periods and contributes towards rental income.

	2010	2011	2012	2013	**2014**
Exposure (£m pa)	11.5	16.2	14.7	20.0	**17.3**
Retention (%)	72	72	81	74	**63**
Re-let (%)	17	21	5	14	**10**
Total (%)	89	93	86	88	**73**

Our performance

In order to protect our income stream, where we do not have redevelopment plans, it is desirable for us to retain tenants at lease expiry or break. Our retention and re-let rate was 73% in 2014 and averaged 86% over the past five years.

Strategies measured:

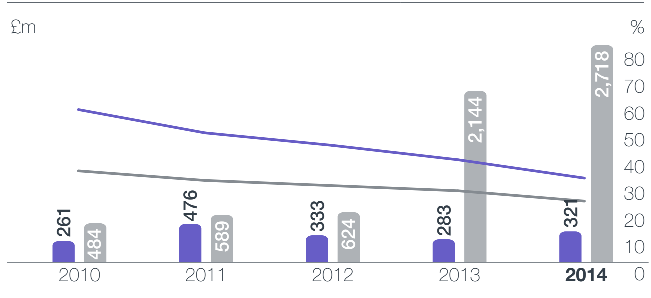
Page 43

- Optimise income

Gearing and available resources

Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. Our approach to financing has remained robust and our gearing levels reflect our ability to finance our pipeline, cope with fluctuations in the market and to react quickly to any potential acquisition opportunities.

We carefully monitor our headroom (i.e. the difference between our total facilities and the amounts drawn under those facilities) and the level of unsecured properties to ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities.



- Headroom (£m)
- Unsecured properties (£m)
- NAV gearing (%)
- Loan-to-value (%)

Our performance

Our gearing levels reduced again in 2014 and we increased headroom. The level of unsecured properties increased again after the move towards predominantly unsecured borrowing in 2013.

Strategies measured:

Page 66

- Maintain strong and flexible financing

MEASURING OUR PERFORMANCE
CONTINUED

KEY METRICS CONTINUED

Energy Performance Certificates (EPC)

EPCs indicate how energy efficient a building is by assigning a rating from A (very efficient) to G (inefficient). We design projects to achieve a minimum of 'B' certificate for all new-build projects over 5,000m² and a minimum of 'C' for all refurbishments over 5,000m².

	Completion	Rating
1-2 Stephen Street W1	2013/14	C
Turnmill EC1	Q1 2015	B
40 Chancery Lane WC2	Q2 2015[1]	B
Tottenham Court Walk W1	Q2 2015[1]	C

[1] Expected

Our performance

All our 2014 and 2015 completions have matched or are expected to match our benchmark.

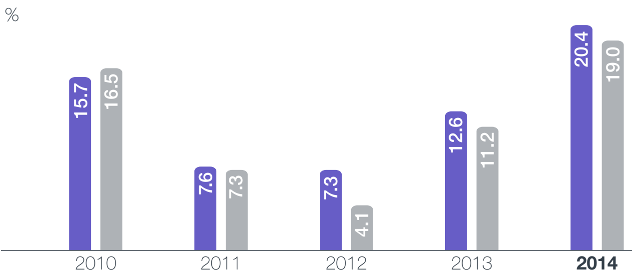
Strategies measured:

Page 70

- Create well-designed space

Capital return

In order to evaluate the performance of our portfolio we compare our performance against the IPD Central London Offices Index for capital growth.



- Derwent London
- IPD Central London Offices Index

Our performance

In 2014 we again exceeded our IPD benchmark, outperforming by 1.4% and over the past five years by a total of 8.8%.

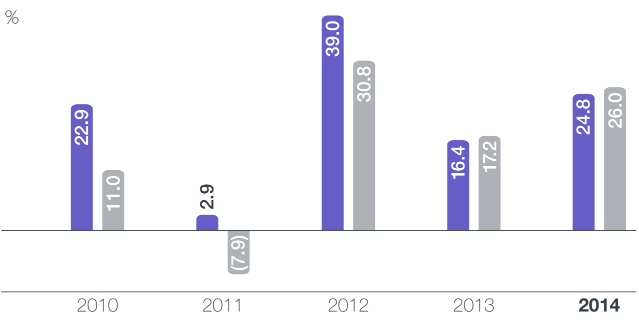
Strategies measured:

Page 40

- Acquire properties
- Create well-designed space
- Recycle capital

Total shareholder return (TSR)

To measure the Group's achievement of providing above average long-term returns to its shareholders we compare our performance against the FTSE All-Share Real Estate Investment Trust Index, using a 30-day average of the returns in accordance with industry best practice.



- Derwent London
- FTSE All-Share Real Estate Investment Trust Index

Our performance

2014 saw the Group marginally underperform our benchmark index. This result is partially due to our strong performance over the past five years which has resulted in a total outperformance of 58%.

Strategies measured:

Page 109

- Acquire properties
- Create well-designed space
- Optimise income
- Recycle capital
- Maintain strong and flexible financing

OUR MARKET

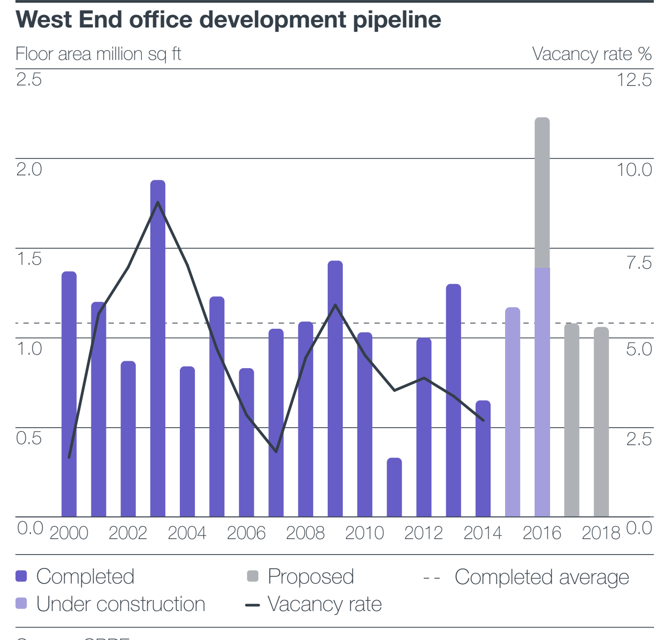
London's property market remains in good health, especially in the commercial sector where rents are steadily rising and exceptional investment demand has seen yields fall further.

London is prospering, with a population now of over 8.6 million people. This growth trend recommenced in 1990 as London once more established itself as a dominant provider of professional and financial services, not only for the domestic market but also internationally. More recently it has become a vibrant centre of the flourishing new technology and creative industries. London now receives significant inward migration not just from the UK, but from around the world. Not only is London bigger; it has also become more cosmopolitan, and is truly a global city.

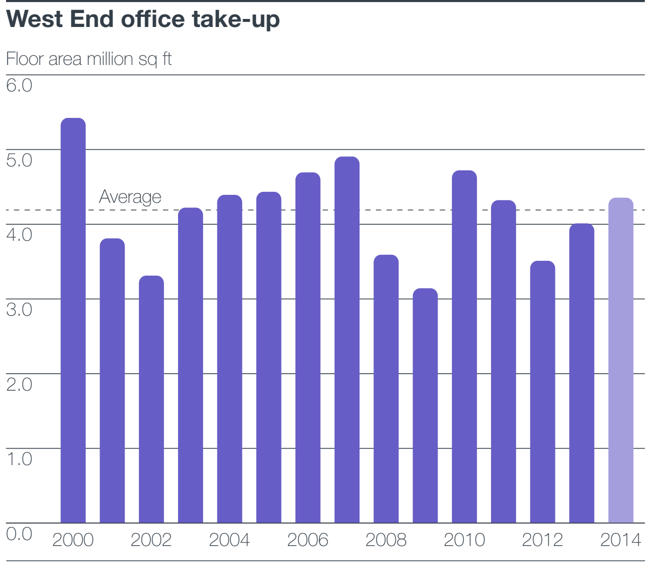
These demographic trends are expected to continue with London's population forecast to grow to 10 million by 2030. London's economy has also benefited and, although it suffered in the last global financial crisis, it has made a strong recovery, in part supported by its attractions to the new industries.

The UK economic recovery has been slower than in recent cycles and growth is expected to remain below average. This has seen base rates stay at very low levels and longer term interest rates fall significantly during the year. The UK General Election in May could dampen economic activity, as it raises uncertainty about potential changes to existing policies that might reduce London's relative appeal. Yet if economic growth quickens it remains possible that base rates might rise later in the year.

The UK economy is estimated to grow at 2-3% pa in the next two years, with London expected to lead that growth. Oxford Economics believes that 275,000 new London office jobs will be created in the next five years, which in turn, on JLL estimates, translate into extra demand for 23m sq ft of office space. This compares to central London availability of only 11m sq ft in December 2014.



Source: CBRE



Source: CBRE

OUR MARKET
CONTINUED

London's commercial property market remains in good health. Rents are steadily rising and exceptional investment demand has seen yields fall further. This cyclical recovery is supported by two structural changes. First the creative industries have developed leading to the establishment of new core office markets, and secondly the ever closer opening of Crossrail, which will significantly enhance the connectivity of a number of London locations. London's level of availability and supply remain conducive to rental growth, which we expect to continue in 2015.

Last year CBRE estimated central London prime office rents rose 11.4%, with 10.7% growth in the West End. This is the fourth year of growth, which, in line with the economy, has been at a steadier pace than in other recoveries.

- During 2014 CBRE estimated 6.0m sq ft of office space was completed in central London, which was a 72% increase on the previous year. West End new supply was actually lower at just 0.8m sq ft, which was 35% below the expected level at the start of the year as a number of schemes are completing late.
- CBRE expect central London completions to fall to 3.6m sq ft in 2015 before picking up to 8.0m sq ft in 2016 and 6.1m sq ft in 2017. The outlook for the West End follows a different pattern with rising supply of 1.2m sq ft in 2015, and then also peaking at a potential 2.2m sq ft in 2016. The largest concentrations of new supply in the West End over the next five years are expected to be in Victoria (1.4m sq ft), Fitzrovia (1.0m sq ft) and Mayfair (0.9m sq ft).
- Last year's central London take-up of 15.0m sq ft exceeded 2013's total by 9%. Of this 22% was pre-let, which was a similar ratio to 2013. Demand from creative industries and business services remained high at 26% and 20% of total take-up, respectively, and demand from financial services recovered to represent 24% of 2014 take-up.
- Total West End lettings were 4.4m sq ft, also a rise of 9%. Business services led here, representing 28% of total demand and CBRE highlighted the importance of service and managed office providers. Creatives had a smaller share at 19%.
- Strong take-up levels saw the central London vacancy rate fall from 4.7% to 3.7% in 2014. This is the lowest level since mid-2008, and 26% below the ten-year average. In the West End, where 60% of our portfolio is located, it is even lower at 2.7% down from 3.4% in the year. CBRE expects central London take-up to be lower this year, but availability will still fall.

The conditions are well set to secure continuing rental growth. CBRE estimates that Fitzrovia will see the highest West End rental growth in the next five years following the delivery of new buildings.

"Fitzrovia prime rents are forecast to show the strongest rental growth in the West End averaging 4.3% per annum over the next five years."

CBRE
JANUARY 2015

6.0m sq ft

of central London completions (West End: 0.8m sq ft)

15.0m sq ft

central London take-up (West End: 4.4m sq ft)

2.7%

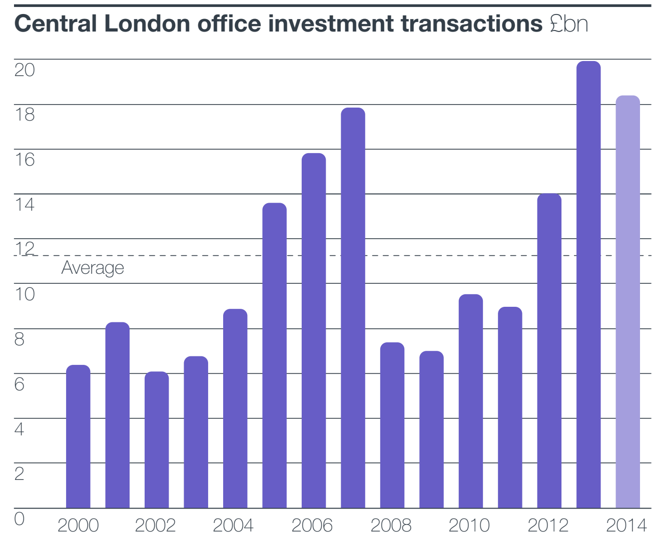
West End vacancy rate, down from 3.4%

The investment market remained very firm in 2014. London activity was buoyed by a positive outlook and falling gilt and corporate bond yields. In the year £18.4bn was invested in central London commercial property, which almost matched 2013's record level of £19.9bn.

London assets continue to attract international investors with a number of headline deals involving new entrants. This sheer appetite deepens the pool of demand and liquidity, which has seen a wider definition of core London. Domestic institutional direct property weightings have risen both tactically to benefit from the improving markets, and structurally as real estate has raised its status as an alternative asset class with a relatively high yield.

The impact has pushed London investment yields to new lows yet investors seem more comfortable at the start of 2015 than at the beginning of 2014. The change in sentiment reflects the slowing economic outlook, which has meant that expectations of the timing of any interest rate rises have been extended, and bond yields have fallen. However, as the Bank of England warns, businesses should assume interest rates will rise in the next two years. We remain of the view that, providing such changes are modest and rental growth continues, property yields will stay firm. If, and when, property yields start to rise in the future, we currently expect neither a sharp correction nor a spate of forced property sales, given the higher levels of equity purchases so far this cycle.

Central London office investment transactions £bn



Source: CBRE

"The tech entrepreneurial spirit in London is thriving. Today, there are more great ideas, investors and working spaces across the city. It's a great time to showcase the capital's successes and opportunities to the global tech sector and demonstrate what London has to offer."

SIR RICHARD BRANSON
PIONEER-AT-LARGE, VIRGIN MEDIA PIONEERS AND VIRGIN START UP
JUNE 2014

THE CHANGING FACE OF LONDON

TECH BELT (2.1m sq ft)

We adopted the term 'Tech Belt' in 2013 for the area which extends from King's Cross to Whitechapel. It contains 33% of our portfolio and is centred around the Old Street roundabout. Attracted by the vibrancy and diversity of emerging locations, start-ups in this sector are converging on the area in ever greater numbers, with around 3,200 media, software and communications companies making up the East London tech cluster. The rise of Clerkenwell, Shoreditch and Aldgate as business centres is partly a result of their close proximity to the deep supply of skilled creative professionals.

The remarkable growth around London's 'Silicon Roundabout' and its importance to us is no secret. We are investing heavily in this part of London and have learned what occupiers want from their offices and also from their landlord. Derwent London came early to this energetic area, which has been increasingly favoured by creative companies. For example, we acquired 1 Oliver's Yard in 1994 and the Tea Building in 2001.

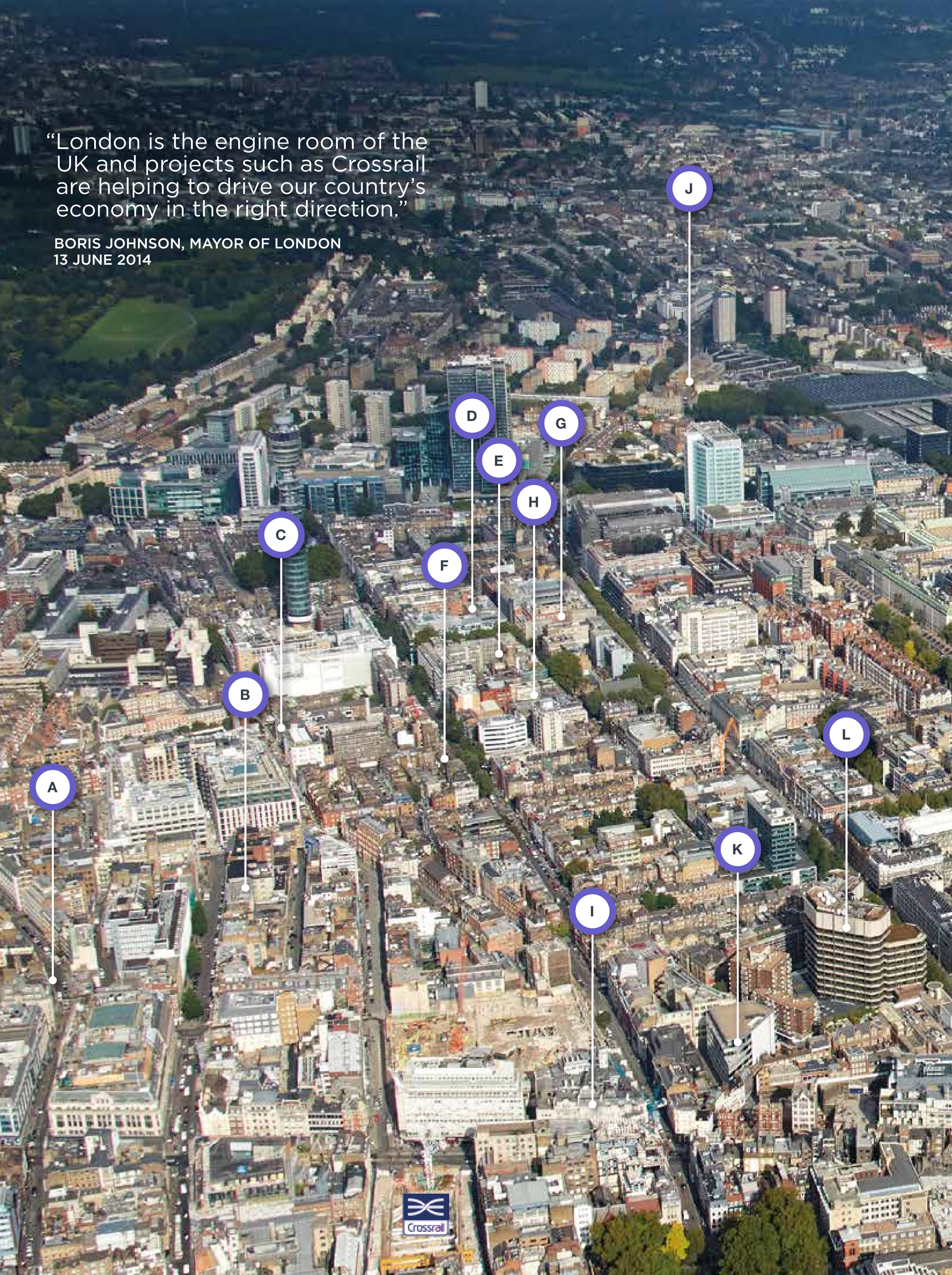
In recognition of changing demand, we build for 'long life: loose fit' i.e. flexibility for buildings. Change is now happening in work environments across sectors and we're seeing second and third generation businesses and even the most established companies starting to move into inspirational buildings at the heart of the action.

A Tea Building E1
B 1 Oliver's Yard EC1
C White Collar Factory EC1
D Monmouth House EC1
E 19-23 Featherstone Street EC1

Page 170

"JLL has decided to retire its 'Northern Fringe' and 'Eastern Fringe' submarkets and replace them with three new submarkets: Clerkenwell, Shoreditch and Aldgate. These are now core markets in their own right."

JLL, MAY 2014


"London is the engine room of the UK and projects such as Crossrail are helping to drive our country's economy in the right direction."
BORIS JOHNSON, MAYOR OF LONDON
13 JUNE 2014
A
B
C
D
E
F
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H
I
J
K
L
Crossrail

FITZROVIA (1.8m sq ft)

Our Fitzrovia portfolio consists of approximately 30 buildings covering nearly two million sq ft and forms 37% of our portfolio by value. This bohemian corner of the capital is set in quieter streets full of history and character. Fitzrovia is enjoying a renaissance and we are helping to shape its future thanks to exciting new architecture such as the Charlotte Building, Qube, 1-2 Stephen Street and our upcoming developments at 80 Charlotte Street and The Copyright Building.

Part of the area's appeal is its unique character and the challenge for developers is to create an environment that retains Fitzrovia's special ambience whilst providing the space that business and residents want.

Like London, ours is an ever-changing and developing estate with assets in different stages of their life all of which will benefit from Crossrail and the increasing appeal for retail at the eastern end of Oxford Street.

CROSSRAIL

The arrival of Crossrail in 2018, currently about 60% complete, will be a game-changer for London's infrastructure, improving accessibility for millions more visitors and workers. Crossrail will bring an extra 1.5 million people to within 45 minutes of central London and will link London's key employment, leisure and business districts – the West End, the City, Docklands, and Heathrow – stimulating further economic development. An estimated 200 million passengers will use Crossrail annually and it will increase London's rail capacity by 10%.

Transport improvements can change perceptions of an area. The introduction of Crossrail has raised the profile of areas such as Farringdon and Clerkenwell where we have completed the schemes at Turnmill and The Buckley Building and where our recent acquisition of 20 Farringdon Road is located.

When Crossrail is complete, over 140 trains per hour will travel through the Farringdon interchange on Thameslink, Crossrail and London Underground services. Farringdon will be the only station from which passengers will be able to access all three networks making it one of Britain's busiest train stations, and a key hub for passengers travelling into London.

By 2026 it is estimated that three times as many passengers will use Tottenham Court Road station as today. Annual footfall is expected to soar around Tottenham Court Road station by more than 75 million to nearly 110 million as a result. Arguably the greatest benefit to Derwent London will be in Fitzrovia, our largest holding by value, which is located to the north of Tottenham Court Road station.

A 75 Wells Street W1
B The Copyright Building W1
C Middlesex House W1
D 8 Fitzroy Street W1
E 80 Charlotte Street W1
F 73 Charlotte Street W1
G Qube and Network Buildings W1
H 56-65 Whitfield Street W1
I Holden House W1
J 132-142 Hampstead Road NW1
K Charlotte Building W1
L 1-2 Stephen Street W1
M 1 Oxford Street W1 (option site)

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VALUATION

Robust occupier demand, rising rentals and sustained investor appetite for central London commercial property, provided a strong background for the year end valuation.

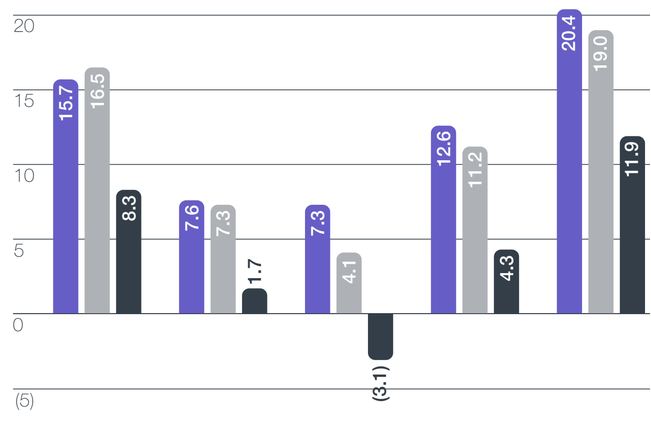
NIGEL GEORGE
EXECUTIVE DIRECTOR

The Group's investment portfolio was valued at £4.168bn at 31 December 2014. The valuation surplus for the year was £683.8m, before accounting adjustments of £11.9m (see note 16), giving a total reported movement of £671.9m. This excellent performance was almost double the £337.5m increase in 2013, which was also a strong year.

The underlying annual valuation uplift was 20.4%, and compared to the 12.6% in 2013. Our London portfolio, now 98% of our assets, rose by 20.7%. Drilling down, the City Borders, principally London's Tech Belt, showed the best growth at 26.3% as these newer areas flourished, with investors recognising their attractiveness to office occupiers looking for vibrant locations that offer competitive rents. The West End was up by 18.6%, where the rental growth was more modest. The balance of the portfolio, our Scottish assets, increased by 7.8% over the year.

During the year we were on site with seven major projects and they increased in value by 24.2%. Five were new developments, comprising office projects at Turnmill EC1, 40 Chancery Lane WC2 and the White Collar Factory EC1, together with the residential projects at Queens W2 and 73 Charlotte Street W1. The final two were the phased refurbishments at 1-2 Stephen Street W1. The valuation of these seven properties was £547.6m and represented 13% of the portfolio at year end. Excluding these, the underlying valuation movement was 19.8%.

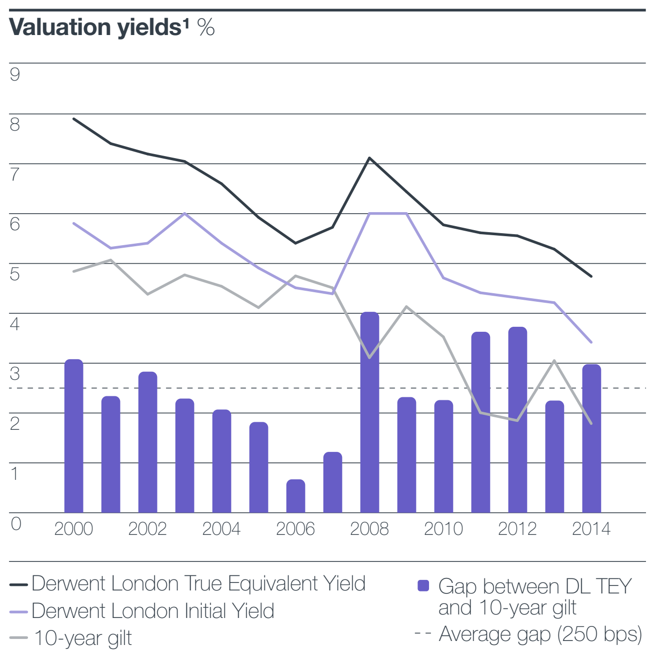
Valuation performance %

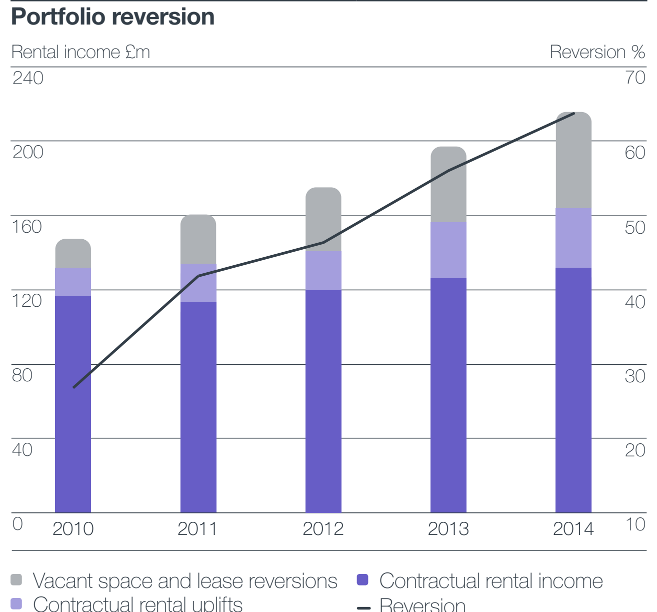


¹ Quarterly Index

£671.9m
valuation surplus

20.4%
underlying valuation uplift





The portfolio's EPRA net initial yield at 31 December 2014 was 3.4%, and this rises to 4.0% on a 'topped-up' basis, following the expiry of rent free periods and contracted rental uplifts. The true equivalent yield was 4.73%, a 55 basis points reduction over the year and follows a 27 basis points tightening in 2013. Since December 2013 the portfolio's equivalent yield has been in new territory with the previous cycle low point being 5.35% in mid-2007. Current property yield levels are supported by a shortage of good office space in central London, firm rental growth and a positive economic outlook, all set around a historically low interest rate environment. On an EPRA basis our rental values rose 9.0% during the year and followed a five year steady trend. During 2014 the City Borders saw rental growth of 11.3% and the West End 8.4%.

The Group's total property return was 25.1%, compared to 18.5% last year. This measurement is one of our key performance indicators (KPI) and was above the comparable benchmark, the IPD Central London Office Index, which returned 23.5%. A further property KPI benchmark is the average three-year total property return, which was 18.4%, against the IPD All UK Property Index benchmark which was 10.4%.

At the year end the portfolio's annualised contracted net rental income had risen 4.5% to £131.7m, and the valuer's ERV had risen 9.4% to £215.6m. The significant difference represents a reversion of £83.9m, which is 18% greater than one year ago, and represents a 64% uplift on passing rents to the estimated December 2014 rental values.

Analysis of the reversion shows that £32.0m or 38% is already contracted through pre-lets, fixed uplifts and expiry of incentive periods. Examples of properties with incentives include Turnmill EC1 and 40 Chancery Lane WC2 (pre-let to Publicis) and 1 Page Street SW1 (let to Burberry). This is a higher level than last year, when it was £30.2m. This uplift is important for the valuation and the cash flow, but much of it, excluding £7.8m of pre-lets, is already included in our accounting earnings under IFRS. The second contributor is the potential £28.4m receivable from letting vacant space, of which £21.3m is expected to come from on-site developments and refurbishments and £7.1m from immediately available space.

The final element of the estimated uplift is the lease reversion of £23.5m, which represents 28% of the potential. Some of these latter potential gains will be lost if we choose to redevelop properties, although they should be more than compensated for by the increase in rental values on the subsequent projects.

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance £m	Occupied floor area '000 sq ft	Available floor area '000 sq ft	Minor refurbishment floor area '000 sq ft	Project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central	2,482.0	60	18.5	384.6	2,652	107	91	53	2,903
Borders	400.7	10	19.2	50.4	591	18	5	–	614
	2,882.7	70	18.6	435.0	3,243	125	96	53	3,517
City									
Borders	1,183.4	28	26.3	241.5	1,561	4	12	310	1,887
Central London	4,066.1	98	20.7	676.5	4,804	129	108	363	5,404
Provincial	102.0	2	7.8	7.3	340	–	–	–	340
Total portfolio 2014	**4,168.1**	**100**	**20.4**	**683.8**	**5,144**	**129**	**108**	**363**	**5,744**
2013	3,353.1	100	12.6	352.5	5,185	38	51	430	5,704

[1] Properties held throughout the year

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		131.7
Contractual rental increases across the portfolio	24.2	
Pre-let of 156,000 sq ft of major projects	7.8	
Letting 129,000 sq ft available floor area	7.1	
Completion and letting 108,000 sq ft of minor refurbishments	3.7	
Completion and letting 363,000 sq ft of major projects	17.6	
Anticipated rent review and lease renewal reversions	23.5	
Portfolio reversion		83.9
Potential portfolio rental value		215.6

Portfolio statistics – rental income

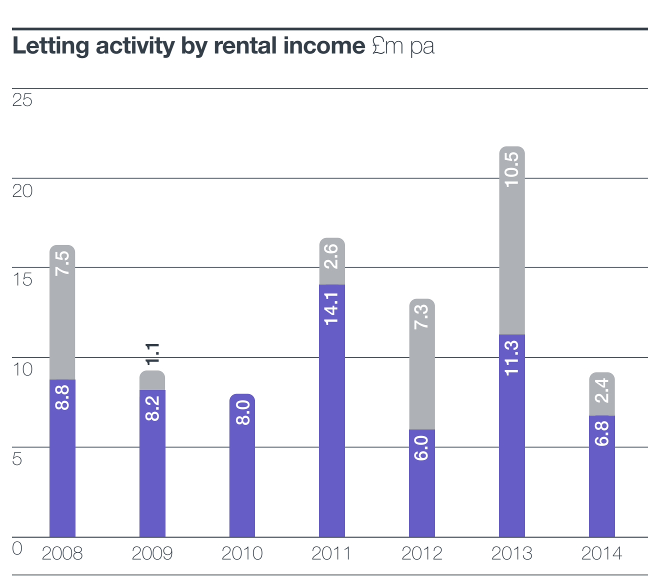
	Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End						
Central	76.8	29.18	11.8	27.7	116.3	7.2
Borders	12.9	21.89	0.7	8.3	21.9	6.7
	89.7	27.85	12.5	36.0	138.2	7.1
City						
Borders	37.2	23.99	15.9	19.2	72.3	5.5
Central London	126.9	26.60	28.4	55.2	210.5	6.6
Provincial	4.8	14.16	–	0.3	5.1	5.1
Total portfolio 2014	**131.7**	**25.77**	**28.4**	**55.5**	**215.6**	**6.6**
2013	126.0	24.54	23.2	47.8	197.0	7.1

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

PORTFOLIO MANAGEMENT

The good letting performance in 2014 has continued into 2015 and demonstrates the appeal of our office space to a wide range of tenants.

PAUL WILLIAMS
EXECUTIVE DIRECTOR



£9.2m
of new lettings in 2014

£5.9m
of new lettings in 2015 year to date

Optimising income

We had a good year for lettings in 2014 securing £9.2m of rental income on 188,300 sq ft of space achieving rents 11.2% above December 2013 ERV. Included in these numbers, our open market lettings were 18.1% above December 2013 ERV. The Group secured £5.6m of rental income in the second half, at an average of 12.7% above December ERV and 5.4% above June 2014 ERV. Details of the principal transactions are given in the following table. We have made a good start to the current year securing £5.9m of new rental income.

During the year we carried out 72 rent reviews and lease renewals on a total of 664,300 sq ft. The average increase was 17% to provide rents of £23.0m pa. During the year £17m of rental income was exposed to lease expiries or breaks, and we were able to retain or re-let 73%.

The letting to Make at Middlesex House W1 was highly profitable, as it involved converting a basement car park into office space, and a number of other transactions in the table set new rental highs for individual buildings.

Since the year end The Office Group has taken 34,150 sq ft at 2 Stephen Street W1 on a 20-year lease without a break for £2.2m pa or £65 per sq ft. The rent incentives are equivalent to a 15 month rent free period. There are five-yearly reviews with minimum CPI linked uplifts capped and floored at 4% to 2% pa at the first and second review with the third review based on open market rent. We will receive a share of The Office Group's profits on the space above a threshold level in return for a capital contribution of £1.8m.

PORTFOLIO MANAGEMENT
CONTINUED

Principal lettings in 2014

	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								
Middlesex House W1	Make	12,200	37.50[1]	0.5	42.50	15	10	9
Morelands EC1	Spark44	8,500	49.50	0.4	54.50	10	5	10.5, plus 4.5 if no break
1 Oliver's Yard EC1	Orms	6,400	50.00	0.3	52.50	10	5	10.5, plus 4.5 if no break
Q2								
Tower House WC2	World Nuclear Association	5,700	66.00	0.4	68.50	10	–	13.5
Q3								
1-2 Stephen Street W1	Freud Communications	28,350	65.00	1.8	75.00	15	10	18, plus 6 if no break
Morelands EC1	Stink London	8,700	54.00	0.5	58.00	10	–	12
Middlesex House W1	London First	4,200	65.00	0.3	70.00	10	8	9
Q4								
1-2 Stephen Street W1	FremantleMedia	6,500	65.00	0.4	–	5	–	7

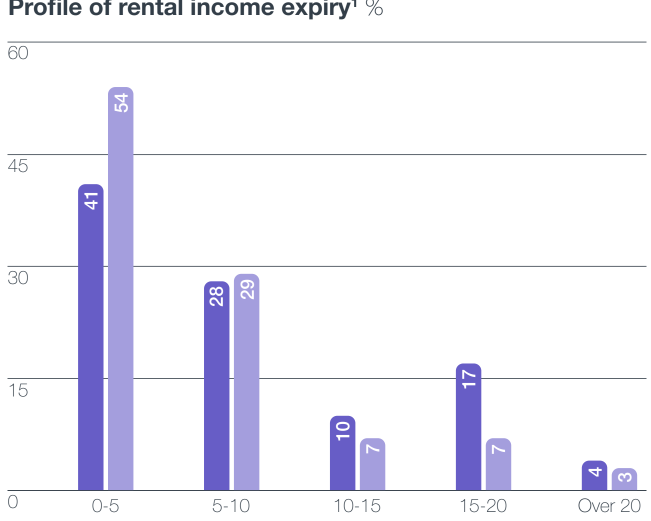
[1] Lower ground floor converted from former car park

Rental value growth[1] %

[1] Half-yearly movement in estimated rental value of the underlying portfolio

The three recent Stephen Street transactions have secured £4.4m of new income and 16,150 sq ft on the top two refurbished ninth and tenth floors are under offer. In addition we have recently taken back the 10,900 sq ft eighth floor from FremantleMedia, which is now being upgraded. Upon completion of the latter phase we will have refurbished 114,350 sq ft, or over half of the building's office space since its acquisition in 2010, during which period the property has remained substantially income producing.

Profile of rental income expiry[1] %



[1] Based upon annualised net contracted rental income of £131.7m

"As previous tenants of Derwent London we were delighted to return to their portfolio in September of last year. We are now based at Oliver's Yard in Old Street. This is both an increasingly popular and vibrant area and, coincidentally, a building that we helped refurbish in the early 2000s. Derwent manage their buildings in an exemplary yet flexible way. With the benefit of long-standing relationships for which Derwent is renowned, we were able to customise the space to create an office that perfectly suits our needs and design aspirations."

OLIVER RICHARD
DIRECTOR, ORMS

ATTRACTING AND RETAINING HIGH QUALITY TENANTS

The key to attracting prospective occupiers is to provide them with the space they want at the price they want and in the location they want.

The right space

- Volume: generous floor to ceiling heights
- Flexibility of use

The right price

Our average central London office rent across the portfolio is still only £34.55 per sq ft on a 'topped-up' basis demonstrating the value offered to tenants.

The right location

- Accessibility in terms of transport
- Amenities in the surrounding area: parks/leisure/restaurants
- Industry clusters

For example, 37% of our portfolio is located in Fitzrovia and 33% in the Tech Belt (both discussed on pages 36 to 39).

Because of the strong demand for our space (our average vacancy rate over the past three years was 2.2%) we can ensure that we only accept high quality tenants. Each and every new tenant goes through a stringent covenant review at our credit committee and, if necessary, a rental deposit or parent company guarantee is required to protect our interests.

Frequent communication with tenants is the key to ensure that we meet all their expectations, whether that is their future plans, changing space requirements or responding to maintenance issues:

- Our experienced team of asset managers is in regular contact with our tenants to understand their current and future needs.
- Our in-house teams of facilities managers and property managers are in day-to-day contact with tenants.
- The building managers at our major properties are also employed directly by Derwent London again ensuring close relationships.

SIMON TAYLOR
HEAD OF ASSET MANAGEMENT

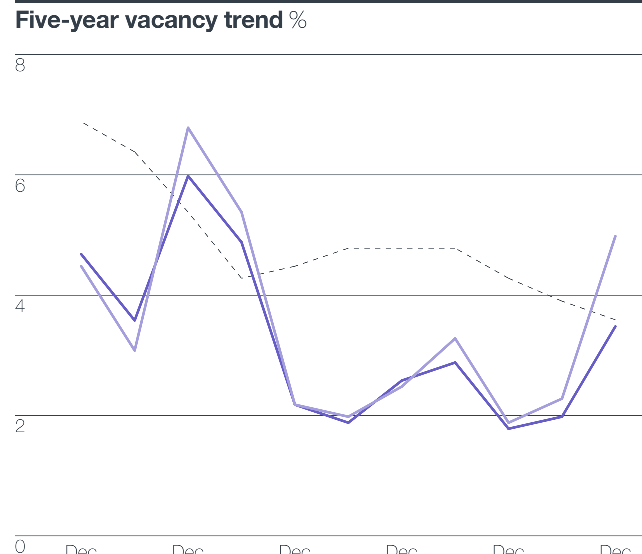
PORTFOLIO MANAGEMENT
CONTINUED

Throughout the first half of the year the Group's vacancy level was relatively low, but it has risen as projects completed. By value, the Group's EPRA vacancy rate started the year at 1.0%, but following the completion of refurbishments at 1-2 Stephen Street W1 and 23,200 sq ft at the Davidson Building WC2 it rose to 4.1% in December. Subsequent lettings have seen the vacancy rate fall to 2.1%.

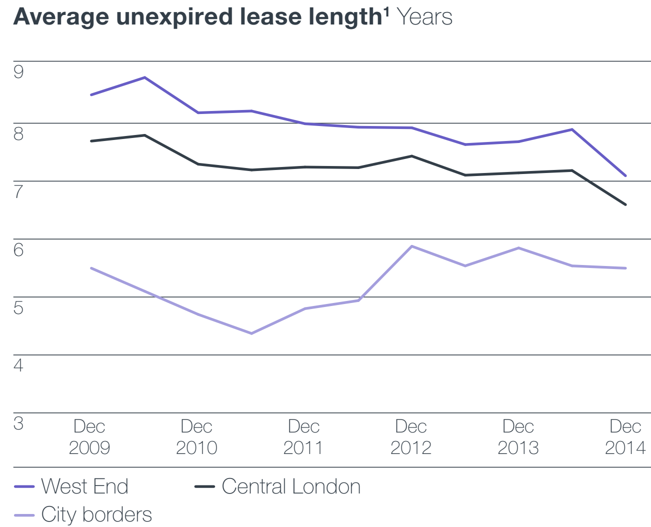
Looking forward, we have secured a number of lettings on space where leases are due to expire in the first half of 2015. At 9 Prescot Street E1, where the Co-operative Bank's ('Co-op') £1.2m pa lease on the whole building was due to expire, we have granted the sub-tenant Barts Health NHS Trust a five-year lease on the five lower floors (60,000 sq ft) at a rent inclusive of the service charge of £1.5m pa. The Co-op will now occupy the three upper floors (36,600 sq ft) on a lease that will break later in the year. This property is now held in our recently formed joint venture with LaSalle Investment Management.

In February we exchanged contracts to let 57,600 sq ft at Angel Square EC1 to Expedia. Of this, 13,000 sq ft is currently available, and 44,600 sq ft will become available once existing leases expire in March. Expedia has taken a short-term lease and will pay a rent of £2.1m pa, which represents a rent of £36.80 per sq ft.

Five-year vacancy trend %



Average unexpired lease length[1] Years



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

PROJECTS

Over the next few years we look forward to delivering a substantial phased development programme to meet occupier demand.

SIMON SILVER
EXECUTIVE DIRECTOR

24.3%
increase in value of development properties

485,000 sq ft
of projects to commence in 2015

Creating well-designed space
The Group has increased its development capital expenditure, to both improve the quality of the portfolio and to take advantage of current market conditions. During the year we completed the refurbishment of 107,000 sq ft of office and residential space, principally at 1-2 Stephen Street W1. In October we completed Queens W2, our first standalone residential project. It comprises 18,700 sq ft in 16 units and 2,700 sq ft of retail. Since completion we have sold seven units for £15.7m, and let the retail space.

The completion of the two developments mainly pre-let to Publicis was delayed into 2015. Turnmill EC1 has now completed, and 40 Chancery Lane WC2 is on track to complete soon. Together these two properties comprise 172,300 sq ft, and the remaining restaurant and retail space is under offer.

There are two smaller projects due for completion later this year.

The first will be the retail scheme at Tottenham Court Walk W1 where we are seeking to introduce a more interesting mix of retailers as part of regenerating 1-2 Stephen Street, and to bridge the gap with the higher value space around Tottenham Court Road station and Oxford Street. In the second half of the year we altered the scheme to make it more adaptable for a wider range of uses. However, the changes reduced the net lettable area by 5% to 38,000 sq ft and our valuers are assuming a lower ERV of £2.3m pa. One restaurant has been let securing £0.3m pa, and we are in negotiations on other units.

The second project set to complete is a residential development at 73 Charlotte Street W1. This will comprise 11,700 sq ft of private apartments in nine units, as well as 1,900 sq ft of affordable housing and 1,900 sq ft of offices.

The largest project where we are on site is the White Collar Factory EC1. Demolition finished in August 2014 and the development is due for completion in around 18 months' time. This is a significant development for two reasons.

First, its scale: it has a total estimated cost, including land, of c.£200m. The commercial element is expected to provide an ERV of £14.7m and there are also nine apartments.

Second, the development encapsulates our thoughts on what constitutes the most attractive space for today's creative businesses. We have seen that a number of our most successful offices, which have enjoyed resilient demand, are buildings originally designed for industrial use, such as Tea Building E1, Greencoat and Gordon House SW1 and most recently The Buckley Building EC1. The White Collar Factory provides new offices in an industrial frame which will give occupiers robust and flexible space, with above average volume and strong sustainability credentials.

DE-RISKING PROJECTS

We usually commit to our refurbishment and development projects speculatively. However, by the time the project is completed, our schemes are typically fully or partially let. Sometimes this is part of our strategy for a particular project as we believe that occupiers are more likely to commit to buildings that they can see coming out of the ground. Often it is as a result of our buildings' broad appeal. These are not typical pre-lets insofar as we do not have to compensate the incoming tenants with additional incentives. Over the past five years 78% of our major schemes have been let before completion.

There are many benefits: the risk profile of our pipeline is reduced which enables us to bring forward other projects. In addition, it means that the property is income producing earlier and that the rates and service charge costs associated with any void period are reduced.

When compared to a six month void period post completion we gained an average of £2.4m per annum of rental income over the past five years and saved £1.7m per annum of void costs, a total positive impact of £20.5m.

CELINE THOMPSON
HEAD OF LEASING

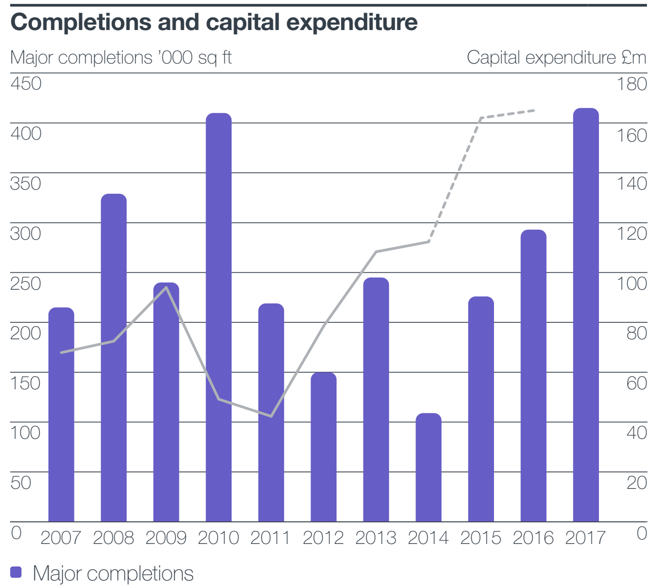
In due course we may be entitled to an overage receipt from the development of apartments at Riverwalk House SW1. Sales are progressing satisfactorily with 71 out of 116 apartments sold. The development is due for completion in December 2015.

Since the year end we have agreed a new 127-year headlease with the freeholder and started work on The Copyright Building, 25-33 Berners Street W1. The freeholder will receive a 12.5% ground rent as well as a share of profits above a 20% return. The development will provide 85,000 sq ft of offices and 20,000 sq ft of retail, which represents a 22% uplift on the existing area. The total cost is estimated at £117m and the net ERV is £6.8m. Completion is expected in H2 2017.

In the second half of 2015 we plan to start our largest development to date: 80 Charlotte Street W1 which lies in the heart of Fitzrovia. The main office building totals 309,000 sq ft of offices and 14,000 sq ft retail. It makes up the majority of an island block. The remaining part of which comprises a 14,000 sq ft private residential building. In addition there is a smaller building opposite at 53-65 Whitfield Street W1 which will provide 12,000 sq ft of offices and 31,000 sq ft of residential, of which 32% is affordable. We are currently negotiating with contractors, but we expect the total cost to be around £380m. The ERV is estimated at £23m pa.

Last year we reported that we were seeing heightened construction cost inflation. We expect to see this continue in the current year, and are assuming construction cost inflation of c.5-7% in 2015.

Completions and capital expenditure



Major projects pipeline

	Area sq ft[1]	Delivery	Comment
Projects completed in 2014			
1-2 Stephen Street W1	85,150	Q3 2014	Offices – 81% let
Queens, 96-98 Bishop's Bridge Road W2	21,400	Q4 2014	Residential and retail
	106,550		
Projects on site pre-let to Publicis			
Turnmill, 63 Clerkenwell Road EC1	70,500	Q1 2015	Offices and retail – 83% let
40 Chancery Lane WC2	101,800	Q2 2015	Offices and retail – 96% pre-let
	172,300		
Other projects on site			
Developments			
White Collar Factory, Old Street Yard EC1	293,000	Q3 2016	Office-led development
73 Charlotte Street W1	15,500	Q3 2015	Residential and offices
Refurbishments			
Tottenham Court Walk W1	38,000	Q2 2015	Retail, Part 1-2 Stephen Street
	346,500		
Major planning consents due to start in 2015			
80 Charlotte Street W1	380,000	H1 2018	Offices, residential and retail
The Copyright Building, 25-33 Berners Street W1	105,000	H2 2017	Offices and retail
	485,000		
Other major planning consents			
1 Oxford Street W1[2]	275,000		Offices, retail and theatre
55-65 North Wharf Road W2	240,000		Offices
25 Savile Row W1	58,000		Residential and retail
	573,000		
Active planning applications			
Wedge House, 40 Blackfriars Road SE1	110,000		Hotel and offices
Grand Total	**1,793,350**		

[1] Proposed areas
[2] Crossrail site under option

£329m

of estimated capital expenditure for the next two years

1.1m sq ft

uplift from 'next wave' of projects

"As a company with varying office and space needs we have been able to work well with Derwent London since they took ownership of our property in late 2010. Derwent began a major refurbishment of 1-2 Stephen Street and they have been understanding of our needs and flexible in meeting our changing business requirements. Our communication with the landlord has always been straightforward."

SANGEETA DESAI
COO/CFO, FREMANTLEMEDIA

Our business model aims to ensure that there are plenty of future value enhancing opportunities in the portfolio. Last year we were successful with our planning applications at The Copyright Building W1 and also 25 Savile Row W1. At the latter we now have permission to redevelop our head office building into 52,400 sq ft of residential accommodation in 29 apartments and 5,600 sq ft of retail space. However, rising office rents and the relatively higher costs in developing luxury apartments mean that we are still considering our best options for the building. We already had planning permission for major schemes at 55-65 North Wharf Road W2 (240,000 sq ft) and 1 Oxford Street W1 (275,000 sq ft offices, retail and theatre). With our new permissions we now have over one million sq ft of consented space still to start.

Approximately 9% of our portfolio by area is under active appraisal. At one end of the process, we have recently submitted revised plans for 110,000 sq ft of hotel and office space at 40 Blackfriars Road SE1 (which already had consent for an 80,000 sq ft office building). At the other end we are at the initial stages of appraisal at 19-35 Baker Street W1, where we are working up plans for a c.250,000 sq ft project with our partners, the Portman Estate. Elsewhere the Network Building W1 has the potential for c.100,000 sq ft adjoining our Qube W1 property. In total this element of the portfolio represents 0.5m sq ft with the potential to provide 0.9m sq ft. In addition another 26% of the portfolio is earmarked for future appraisal and holds numerous additional development opportunities.

FORWARD PLANNING

As an important part of our business model, the Development team's brief is to prepare and secure planning permissions for our future development pipeline. Excluding projects where we are on site, at the year end 17% of our portfolio was either consented or under appraisal for future development. In total this could represent 2.0 million sq ft, or an uplift in the existing lettable area of 1.1 million sq ft (122%) which is equivalent to an uplift of 19% across our whole portfolio.

In almost all of our acquisitions we will already have identified development opportunities to add value. Once the building is acquired we conduct detailed studies as to how best to improve it, and how that investment can benefit its immediate neighbourhood. We involve our architects early on, and each project is considered individually with a focus on good design and affordability. It is important that this activity is phased to time delivery with the market and our overall development programme.

As the business has grown we have created important development clusters notably in Fitzrovia, the Tech Belt and Victoria. In such cases improvements to one building can have a positive impact on other parts of the portfolio. Our long-term interests in these areas have allowed us to foster good working relationships with local authorities, and a better understanding of local communities' interests. In Fitzrovia this can be seen in our investment in the Fitzrovia Community Investment Fund, and the fact that we are providing 24,600 sq ft of affordable housing including Suffolk House W1.

During 2014 we were successful in securing planning for The Copyright Building W1 where work has already commenced. We are replacing three tired adjoining offices in Berners Street W1, with a single purpose-built office building and injecting new retail life at street level. We also secured consent to convert our own head office at 25 Savile Row W1 into 29 apartments with retail/gallery space on the ground floor. Together these added 163,000 sq ft to our consented potential developments.

In the current year we have applied for planning to redevelop Wedge House to create 110,000 sq ft of hotel and offices.

Securing the appropriate planning at the right time is a key part of our business model. It enhances our acquisitions, secures our design-led principles, refreshes our portfolio and, in due course, will help to optimise our income.

RICHARD BALDWIN
HEAD OF DEVELOPMENT

Project summary 2015-2016

	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Capital expenditure to complete[1]	Delivery date	Current office ERV £ per sq ft
On-site projects[2]						
Turnmill EC1	–	41	70	2	Q1 2015	55.00
40 Chancery Lane WC2	–	61	102	10	Q2 2015	65.00
73 Charlotte Street W1	–	13	16	7	Q3 2015	Residential
White Collar Factory EC1	–	124	293	94	Q3 2016	c.55.00
Tottenham Court Walk W1	–	24	38	4	Q2 2015	Retail
	–	263	519	117		
2015/2016 – Consented						
The Copyright Building, 25-33 Berners Street W1	1.4	86	105	51	2017	c.77.50
80 Charlotte Street W1	4.3	234	380	175	2018	c.75.00
55-65 North Wharf Road W2	1.4	78	240	118	2018	c.60.00
	7.1	398	725	344		
Planning and design				27		
Other				51		
Capitalised interest				41		
Total (2015-2016)	**7.1**	**661**	**1,244**	**580**		

[1] Excluding projects that commence in 2017 and beyond (as at December 2014)
[2] Fixed price contracts (as at December 2014)

Project summary 2016 onwards

	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	c.2018	Option site. Offices, retail and theatre
25 Savile Row W1	1.2	42	58	TBC	Residential and retail
	1.2	42	333		
Appraisals[1]					
Wedge House SE1	0.2	39	110	2015	Planning submitted (hotel and offices)
Balmoral Grove N7	0.6	67	200	2015	Residential potential
Monmouth House EC1[2]	1.7	69	125	2017	
Network Building W1	2.4	64	100	2017	
19-35 Baker Street W1	5.3	146	250	2018	
Premier House SW1	1.9	62	80	2018	
Holden House W1	2.8	91	137	TBC	
	14.9	538	1,002		
Adjustment for joint project	(2.4)	(66)	(113)		19-35 Baker Street
	12.5	472	889		
Total (2016 onwards)	**13.7**	**514**	**1,222**		
Total (2015-2016)	**7.1**	**661**	**1,244**		
Total pipeline	**20.8**	**1,175**	**2,466**		

[1] Areas proposed are estimated from initial studies
[2] Includes 19-23 Featherstone Street EC1

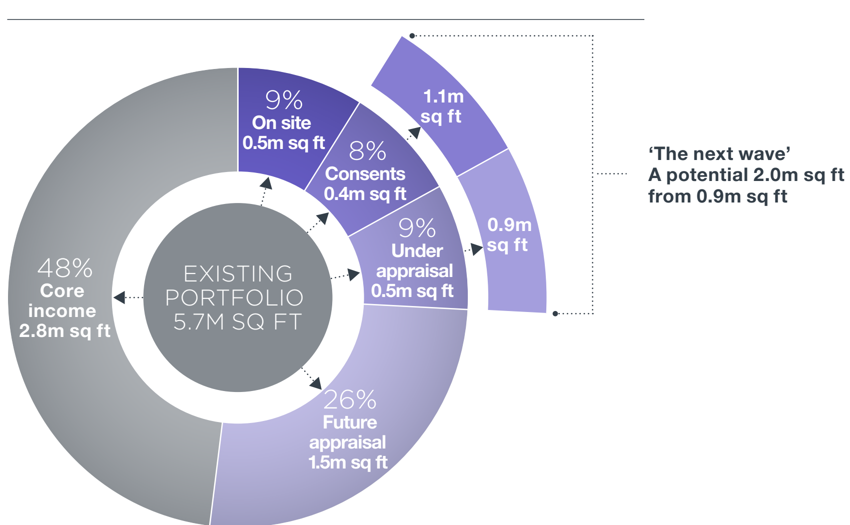
CREATING VALUE ACROSS THE PORTFOLIO

The potential for value creation exists across the whole of the Derwent London portfolio.

At the year end we were on site with five schemes totalling 0.5 million sq ft. The 'next wave' of projects consists of five consented schemes of 1.1 million sq ft as well as projects at seven major properties where we have drawn up plans for schemes. In addition to these, we also have several more properties identified for future schemes in the longer term.

However, there is also significant value in the 'core income' properties within the portfolio. Of the £83.9m reversion in the portfolio at the end of the year, £32.0m (38%) is contracted. In addition, we actively 'work' these properties to obtain additional value and examples of these activities are discussed opposite.

Portfolio composition (by area)



We don't believe in a 'one size fits all' approach. We aspire to create innovative and aesthetically striking spaces. We work piece by piece, and we think laterally when several buildings are clustered together.

We appreciate the different characters and cultures of London's villages, and we can map a distinctive future for each of them. Our continuing goal is to provide arenas for new ideas and communities to thrive in.

We have always strived to do better and think smarter, learning from the past, looking to be progressive and to challenge conventions.

Our overriding aim is to deliver space that maximises quality as well as quantity. We want to provide enjoyable and efficient space for our tenants – offices that are bright and comfortable, cost-effective in use and energy efficient – that ultimately provides them with what they want.

With sustainability in mind, we also ensure that buildings are adaptable, so that they can cope with any long-term change of building use and have the ability to be continually refurbished over time rather than face costly demolition.

CORE INCOME

TEA BUILDING E1

We converted this former warehouse into one of the most iconic office buildings in the Tech Belt. It is also home to Shoreditch House, and the property has continued to evolve as we have rolled-out our 'Green Tea' programme giving the building 21st century sustainability credentials.

1-2 STEPHEN STREET W1

FremantleMedia is one of the largest tenants in the portfolio, occupying the 3rd-7th floors at 1-2 Stephen Street, paying an annual rent of £3.2m.

They have recently consolidated their occupation from 116,500 sq ft to 83,400 sq ft in order to accommodate their business requirements. This has given us the opportunity to refurbish the 8th, 9th and 10th floors which total 27,000 sq ft.

Additionally, the tenant has reduced their lease term, from an expiry of December 2024 to October 2019, on a lease outside the provisions of the Landlord and Tenant Act 1954. This will give us the opportunity to carry out a comprehensive refurbishment five years earlier than expected.

MIDDLESEX HOUSE W1

NCP were a tenant in the basement of Middlesex House paying £0.2m pa. Following the surrender of NCP's lease we gained planning permission for the change of use from car park to office space and pre-let the 12,200 sq ft to Make architects at a rent of £0.5m pa.

We are installing underfloor heating and a garden area, and enclosing what was previously the open air ramp to the car park to create lettable office space. The works are due to complete in Q2 2015.

The design is distinctive and in keeping with the industrial feel of the building whilst converting a low value car park to higher value office space.

GREENCOAT & GORDON HOUSE SW1

VCCP have been expanding over the last three years and their space requirements in Greencoat House have significantly increased. Since the beginning of 2014 they have taken on an additional 9,300 sq ft taking their total occupation up to c.40,000 sq ft at a rent of £1.6m pa. Recent lettings were achieved at new levels for the buildings of £57.50 per sq ft.

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"Derwent London puts a lot of energy into beautiful architecture with deliberate detail and in natural and sustainable materials."

RON BAKKER
PARTNER, PLP ARCHITECTURE

ON SITE

TOTTENHAM COURT WALK W1

Village: Fitzrovia
Type: Retail
Scheme size: 38,000 sq ft
Completion date: Q2 2015
Architect: ORMS
Capital expenditure to complete: £4m

This project has created larger double-height retail units by both extending outwards under the existing colonnade and by converting part of the basement car park. The new units will benefit from both the increasing appeal of the eastern end of Oxford Street as well as the opening of Crossrail in 2018. When the project completes in the next couple of months the tenant offer will change from the previous electronics retailers to a vibrant mix of restaurants and retail.

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WHITE COLLAR FACTORY, OLD STREET EC1

Village: Old Street
Type: Offices/Residential/Retail
Scheme size: 293,000 sq ft
Completion date: Q3 2016
Architect: AHMM
Capital expenditure to complete: £94m

White Collar Factory is an original concept for the design and construction of new office buildings that combines the adaptability of well-built industrial spaces with best practice in modern office design. It is located on Old Street, at the epicentre of London's burgeoning 'Tech Belt'. Dubbed 'Silicon Roundabout' or 'Tech City' by business leaders and politicians alike, the area around Old Street roundabout is home to hundreds of locally-grown initiatives.

Great offices make for great organisations. White Collar Factory has been designed with the understanding that a good working environment can help generate productivity, attract talent and retain valuable employees. Our knowledge of what makes talented people tick has enabled us to create space that balances their personal well-being with the demands of business.

The nature of the work for many creative companies requires collaboration between different departments, resulting in a requirement for fluid office layouts which are designed to increase the opportunities for interaction. In some cases, up to half of a company's office space is dedicated to common areas, with larger firms placing considerable emphasis on creating a range of areas within the workspace to provide many different work environments which staff can utilise more productively.

This development is about more than a single White Collar Factory building. There is also a mix of low-rise refurbished and new buildings clustered around a new public space which should create a vibrant and thriving urban campus, designed to attract companies of all shapes and sizes for a diverse business community. Old Street Yard could also offer flexible accelerator space, enabling start-ups and small businesses to establish themselves in London's technology hub, giving them the space to develop and grow.

By building a like-minded community of ambitious young businesses and established players, Old Street Yard should act as a breeding ground for innovation, collaboration and creativity.

White Collar Factory's design is people-centric, putting occupiers in charge of their environment and empowering them to play an active role in the building's operation. By bringing together sustainable architecture, a great location, a sense of light and space, and campus-wide facilities, White Collar Factory offers a dynamic working environment for employers and employees alike.

73 CHARLOTTE STREET W1

Village: Fitzrovia
Type: Residential/Offices
Scheme size: 15,500 sq ft
Completion date: Q3 2015
Architect: DSDHA
Capital expenditure to complete: £7m

Work started on site at 73 Charlotte Street in 2013 to create 11 residential units, two of which are affordable, and 1,900 sq ft of offices. We expect to market the apartments before completion later in the year.

Five simple principles

These ensure that the overall need for artificial lighting, heating and cooling is reduced, while flexibility and adaptability are nurtured. The result is a more sustainable, affordable and future proof workspace: an office for the 21st Century. It puts people in full control of their work environment.

High ceilings
High ceilings look and feel great; they allow for greater flexibility of fit-out and improve comfort levels by enabling better ventilation and more daylight.

Concrete core cooling
The innovative approach to environmental control exploits natural daylight and ventilation, while concrete core cooling uses simple chilled water to transform the structure itself into a radiant cooling source.

Windows that open
Openable windows put people in charge of their environment. The common-sense facades minimise solar gain by ensuring that south-facing walls have a lower percentage of glazing than north-facing walls.

Flexible occupation
The well-designed floor-plates futureproof the building for occupiers' changing needs, allowing easy and quick sub-division of space and high density occupation.

Stays cool, stays warm
Using exposed, fair-faced, concrete minimises our carbon footprint. Concrete thermal mass efficiently absorbs and releases heat to regulate the building's temperature naturally.

CARBON EFFICIENCY

White Collar Factory will produce 25% less carbon than a typical office building, which equates to a saving of 162 tonnes of CO_2 every year.

Equivalent to:

32
homes' annual CO_2 emissions

650,000
miles in a London taxi

Source: Arup

THE NEXT WAVE: CONSENTED SCHEMES

At the year end we had consents for over one million sq ft of development, which on completion would add 600,000 sq ft of additional space to our portfolio. We expect to start 485,000 sq ft in 2015, which will add 165,000 sq ft to our lettable area.

80 CHARLOTTE STREET W1

Village: Fitzrovia
Type: Offices/Residential/Retail
Scheme size: 380,000 sq ft
Completion date: 2018
Architect: Make
Capital expenditure: £175m

The regeneration of 80 Charlotte Street will be Derwent London's largest scheme to date. The main development occupies a 1.4 acre island site in the heart of our Fitzrovia estate and will provide 321,000 sq ft of offices and 45,000 sq ft of residential units as well as retail space of 14,000 sq ft.

The design for the 80 Charlotte Street block aims to retain the majority of the existing buildings, breathing new life into the existing spaces and creating a new identity with a strong sense of place. The retained sections of the buildings will be refurbished internally and, together with new additional floors, provide a range of flexible and highly efficient office spaces to satisfy the requirements of the modern occupier. In addition, a self-contained residential element will be introduced as well as further floors at roof level to provide fantastic skyline offices, set back from the street frontage with private terraces.

Retaining a large proportion of the existing building is environmentally and socially sustainable, reducing the quantity of materials and energy required and minimising pollution and disruption for local residents and businesses. Long-term sustainability strategies will be developed to incorporate opening windows, natural ventilation and heat recovery systems.

The development will harmonise with its setting in Fitzrovia; enhancing activity and interest at street level by offering an enriched mix of uses across all of the site's frontages and offering the local community a new area of public realm.

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THE COPYRIGHT BUILDING W1

Village: Fitzrovia
Type: Offices/Retail
Scheme size: 105,000 sq ft
Completion date: 2017
Architect: Piercy & Company
Capital expenditure: £51m

In October 2014, we secured planning consent for a seven-storey building of 105,000 sq ft offices and retail. The development will occupy a prime position at the northern end of Berners Street in close proximity to our other Fitzrovia holdings. The building has been designed for multi-let or single occupancy with a number of 'soft spots' included so as to allow tenants to interconnect between floors. Having agreed terms with the freeholder work is already in hand.

"Work culture evolves and can involve different teams collaborating together for only a short period of time. There is a strong emphasis on creating fluid workspaces with a variety of collaborative areas as it helps stimulate creativity."

SIMON JORDAN
MANAGING DIRECTOR, JUMP STUDIOS

55-65 NORTH WHARF ROAD W2

Village: Paddington
Type: Offices
Scheme size: 240,000 sq ft
Completion date: 2018
Architect: Fletcher Priest
Capital expenditure: £118m

Early in 2013, Derwent London secured an option to regear the leasehold structure at this site, thereby unlocking the consented development. We are looking to secure possession later in 2015 prior to a potential start in 2016. This is a prime location adjacent to Paddington station where a Crossrail interchange will join the existing main line and underground links in 2018. When complete this will be a striking building containing a column-free environment for tenants with extensive views over London.

1 OXFORD STREET W1

Village: Soho
Type: Offices/retail/theatre
Scheme size: 275,000 sq ft
Completion date: c.2020
Architect: AHMM

The Group has consent to develop 275,000 sq ft of office, retail and theatre space. We have an option to acquire the site from TfL, who are currently developing it as the main Tottenham Court Road Crossrail station.

THE NEXT WAVE: UNDER APPRAISAL

We are actively investigating potential schemes at seven properties which could provide 0.9m sq ft of space, an uplift of 88% on the existing space.

WEDGE HOUSE SE1

Village: Southbank
Type: Hotel/offices
Scheme size: 110,000 sq ft
Completion date: 2017
Architect: Lifschutz Davidson Sandilands

We had a consent to build an 80,000 sq ft office building. However, in January 2015, we submitted a planning application with Hoxton, a hotel operator, to develop a mixed-use project comprising a 68,000 sq ft hotel and 42,000 sq ft of offices.

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19-35 BAKER STREET W1

Village: Baker Street/Marylebone
Type: Mixed-use
Scheme size: c.250,000 sq ft

The Group has a 55% interest in the 146,000 sq ft collection of buildings. Our partner is the Portman Estate. Early work is in preparation for vacant possession in 2018. Preliminary studies show that the site could support a development of around 250,000 sq ft.

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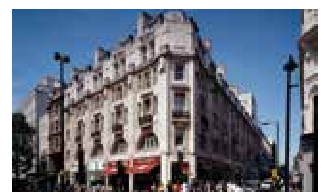
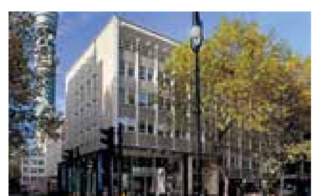


HOLDEN HOUSE W1



NETWORK BUILDING W1

MONMOUTH HOUSE EC1

BALMORAL GROVE N7

PREMIER HOUSE SW1

FUTURE POTENTIAL

In addition to the projects described above and on the previous pages, there are opportunities to add value at a number of other properties. Such initiatives would be likely to commence after 2020. At the year end these properties total 1.5m sq ft of existing space, or 26% of the portfolio. This brings the total of the portfolio that is either already under development or has potential for development to 52% or 2.9m sq ft.

19 CHARTERHOUSE STREET EC1

This 63,700 sq ft property in the Tech Belt was acquired in 2013. It is currently let for educational use at £26.50 per sq ft on a lease expiring in 2025. It is a prominent corner building opposite the entrance to Farringdon Crossrail station and our recent 20 Farringdon Road purchase.

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BUSH HOUSE, SOUTH WEST WING WC2

This freehold 108,000 sq ft office building is fully let until 2028 at a rent of only £25,000 p.a. (£0.23 per sq ft). It is located in an area currently seeing substantial regeneration.

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20 FARRINGDON ROAD EC1

FRANCIS HOUSE SW1

HENRY WOOD HOUSE W1

ANGEL SQUARE EC1

Like Angel Square, we believe the purchase of 20 Farringdon Road offers short-term management and repositioning potential, with longer term redevelopment angles.

INVESTMENT ACTIVITY

We have acquired two properties which reinforce existing Derwent London clusters in the Tech Belt and offer significant redevelopment opportunities.

DAVID SILVERMAN
EXECUTIVE DIRECTOR

£98.0m
of commercial property sales at 40% premium to December 2013 values

£90.9m
of principal property acquisitions

£115.3m
property swap agreed in February 2015

Acquiring properties and unlocking their value
During the year we acquired two properties which reinforce existing Derwent London clusters in the Tech Belt. They are both let off low rents with low capital values, have scope for near term asset management and, in the longer term, offer significant redevelopment opportunities.

We acquired the largest of the two properties, Angel Square EC1, in November 2014. This is a prominent corner property comprising three multi-let connected buildings around a central courtyard. It is located above Angel underground station and opposite our successful Angel Building. Rents range from £10 to £30 per sq ft with an average rent of £21.68 per sq ft on let space. The majority of leases expire in March 2015. Our initial plan is to capture the rental reversion through medium term lets on this space such as the recent letting to Expedia. Longer term we are considering plans for a larger building on the site.

The other acquisition has helped unlock a larger site. 19-23 Featherstone Street EC1 is located next to our White Collar Factory development, and adjacent to our Monmouth House EC1 (41,500 sq ft of offices). The vendor has leased the building back at an initial rent of £10 per sq ft with a break after 12 months. The property is already highly reversionary, but we have commissioned some early studies on a potential new development on a larger site combining Monmouth House. This work has suggested the site could hold a c.125,000 sq ft development, which would represent an 80% increase on the existing space and a major regeneration opportunity.

Since the year end we have announced the acquisition of 20 Farringdon Road EC1 as part of a property swap. We discuss the related disposals under recycling capital below. This prominent 170,600 sq ft property is currently one of the largest in Clerkenwell next to Farringdon Crossrail station, and opposite 19 Charterhouse Street EC1 which we acquired in 2013. The consideration was £88.0m before costs, which we met through a property swap, for a minimum 175-year lease with the vendor retaining a 10% ground rent. The net rent is £3.2m, and our net initial yield is 3.4% (£545 per sq ft). The property comprises 141,400 sq ft offices, 5,700 sq ft of ancillary space, 1,200 sq ft retail and a 22,300 sq ft gym. One office floor is let at a peppercorn rent until December 2015 with the remaining office floors let at an average rent of £27 per sq ft. Like Angel Square EC1 we believe the purchase offers short-term management and repositioning potential, with longer-term redevelopment angles. Each purchase has enhanced our position next to important transport hubs.

Principal acquisitions 2014

	Date	Area sq ft	Total cost £m	£ psf	Net yield %	Rental income £m pa	Rent £ psf	Lease length[1] Years
19-23 Featherstone Street EC1	Q1	27,500	12.3	450	2.2	0.3	10	0.2
Angel Square EC1	Q4	128,700	78.6	620	3.0	2.4	19	0.3
Total		**156,200**	**90.9**	**580**	**2.9**	**2.7**	**17**	**0.3**

[1] To first break or expiry, as at 31 December 2014

Principal commercial disposals 2014

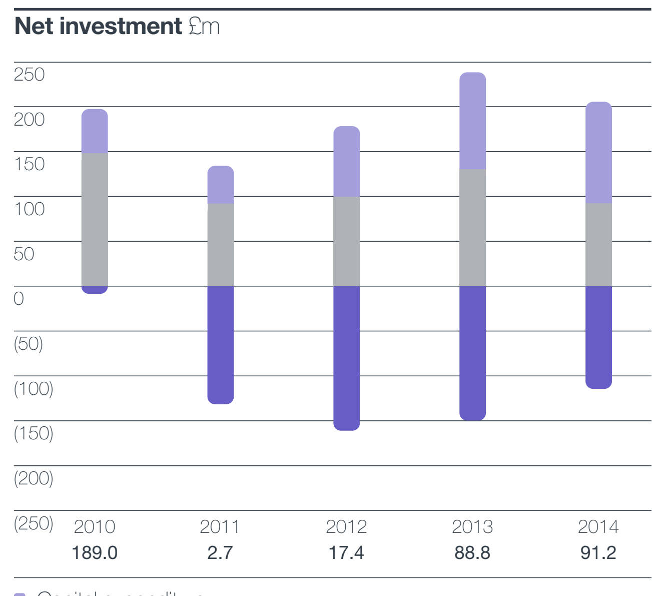
	Date	Area sq ft	Net proceeds £m	£ psf	Net yield to purchaser %	Rental income £m pa	Surplus to Dec 2013 %	Surplus to Jun 2014 %
Jaeger House W1	Q2	24,900	30.3	1,215	2.7	0.9	32	–
186 City Road EC1	Q3	38,300	22.8	595	4.1	1.0	54	1
35 & 37 Kentish Town Road NW1	Q3	24,500	13.9	570	3.8	0.6	40	3
Suncourt House N1	Q4	26,500	17.1	645	3.9	0.7	35	24
136-142 Bramley Road W10	Q4	30,900	13.9	450	4.4	0.7	49	26
Total		**145,100**	**98.0**	**675**	**3.6**	**3.9**	**40**	**12**

Recycling capital

During the year we sold five smaller London office properties for a total consideration of £98.0m. Jaeger House W1 was our largest disposal. This represented a redevelopment opportunity with leases close to expiry but we chose instead to sell to a special purchaser taking most of our expected future development gain. The other properties were four smaller assets, three of which were geographically near the outer limits of our London portfolio. We were able to crystallise substantial gains, which were on average 40% above December 2013 values.

We also sold our 25% interest in the Prague Fashion Arena in the Czech Republic. This non-core legacy asset raised £6.8m net of costs, which after tax reflected a 21% premium to its 2013 book value. In addition £15.7m was raised from the sales of apartments at Queens W2 realising a £3.9m profit before tax.

As consideration for the purchase of 20 Farringdon Road EC1 we disposed of £115.3m of assets comprising two properties, 22 Kingsway WC2 and Mark Square House EC2, and a 50% interest in 9 and 16 Prescot Street E1. We will receive the balance of £27.3m before costs in cash. The proceeds are in line with our December 2014 values.



FINANCE REVIEW

After an outstanding year of net asset growth and the conversion of £175m of bonds into new shares in January 2015, we believe the Group is in a very good financial position to deliver its substantial pipeline of regeneration projects.

DAMIAN WISNIEWSKI
FINANCE DIRECTOR

Derwent London had its strongest year of net asset growth to date in 2014. The increase in net asset value (NAV) was £705.2m for the year, up by 29.7% from the end of 2013, with a total return for the year of 30.1%. This growth was largely driven by a combination of favourable letting conditions, demand being well in excess of available good-quality office space thereby causing market rental values to rise, and particularly strong investment demand.

The extent of yield movement during 2014, influenced as it is by many external factors, exceeded our expectations. This fall looks likely to continue into 2015 but our view is that equivalent yields must now be approaching cyclical lows. Our predictions for London office ERVs in 2014 proved to be more accurate and we continue to anticipate further growth to come. In 2014, the Group's ERV grew by 9.4%, which has further increased our rental reversion. With lettings from our recent developments, we therefore saw rental income grow in 2014 while keeping firm control of our operating costs, with a corresponding positive impact upon recurring profit, EPS and interest cover. As a result, we increased the final dividend by 8.7% giving a total of 39.65p per share for the year. This represents the seventh successive year of dividend growth since 2007, the year of the merger of Derwent Valley and London Merchant Securities, the average annual growth rate since then being 8.4%.

Levels of apparent liquidity chasing the London property sector have seemed the highest for many years with available cash now seeking debt as well as equity returns. We have taken advantage of these market conditions by completing £100m of 15 and 20 year US private placement funding in January 2014 and extending our £550m revolving unsecured bank facility in December 2014 to a January 2020 maturity. The latter included a worthwhile reduction in the margin payable. As explained later, our 2016 convertible bonds also completed their conversion to new ordinary shares in January 2015 which further strengthens the balance sheet and improves interest cover.

	2014	2013	Increase %
EPRA NAV per share	**2,908p**	2,264p	28.4
EPRA NNNAV per share	**2,800p**	2,222p	26.0
Property portfolio at fair value	**£4,168.1m**	£3,353.1m	24.3
Gross property income	**£138.4m**	£131.6m	5.2
EPRA profit before tax	**£62.3m**	£57.8m	7.8
Profit before tax	**£753.7m**	£467.9m	61.1
Dividend per share	**39.65p**	36.50p	8.6
NAV gearing	**32.9%**	40.0%	n/a
Net interest cover ratio	**286%**	279%	n/a

Net asset value growth

The yield shift referred to above, together with development profits from our projects and strong underlying rental value growth across the portfolio, produced a 28.4% increase in EPRA net asset value per share during 2014 to 2,908p per share from 2,264p a year earlier. The revaluation surplus and profits from property sales together accounted for 687p compared to 378p in 2013.

The overall improvement in EPRA NAV per share can be summarised as follows:

	2014 p	2013 p
Revaluation surplus	**654**	326
Profit on disposals	**33**	52
EPRA profit after tax	**57**	54
Dividends paid (net of scrip)	**(35)**	(30)
Equity portion relating to issue of convertible bonds 2019	**–**	12
Interest rate swap termination costs	**(2)**	(13)
Dilutive effect of convertible bonds 2016	**(46)**	(10)
Non-controlling interest	**(10)**	(7)
Other	**(7)**	(6)
	644	378

A detailed reconciliation of the EPRA NAV to the IFRS NAV is shown in note 38 to the financial statements.

The rapid growth in NAV per share above the 2,222p conversion price for the convertible bonds originally due to mature in 2016 gave rise to a further 46p per share of NAV dilution in 2014 after 10p per share in 2013. As the EPRA NAV per share is a fully diluted measure, there will be no additional impact as a direct result of the conversion of the bonds in 2015, though the unamortised issue costs of £1.4m will effectively be written off at the point of conversion. As they were redeemed in January 2015, the bonds were reclassified as current liabilities at the 2014 year end.

With financial markets across much of the global system chasing yield and the fear of deflation or continued sluggish growth in many European markets, there has been a quite extraordinary movement in the UK 10-year gilt rate over the last year or so. At the end of 2013, the 10-year gilt rate was around 3.0% and expected to rise further but, by the end of 2014, it had fallen to about 1.8%. As noted above, this trend has been very positive for our property valuations but the fair value adjustments to our debt instruments have naturally moved in the opposite direction. Accordingly, we saw a £9.3m or 9p per share increase in the mark-to-market cost of unwinding interest rate swaps taking the balance sheet exposure to £25.2m or 24p per share at the end of 2014 compared to 15p per share a year earlier. As the swap curve has fallen across its entire time range, the impact upon the fair value of our long-term fixed rate debt liabilities was more marked and increased from £15.2m in 2013 to £78.8m or 76p per share in December 2014. These adjustments took the Group's EPRA triple NAV per share to 2,800p at 31 December 2014, which represents an increase of 26.0% over the year.

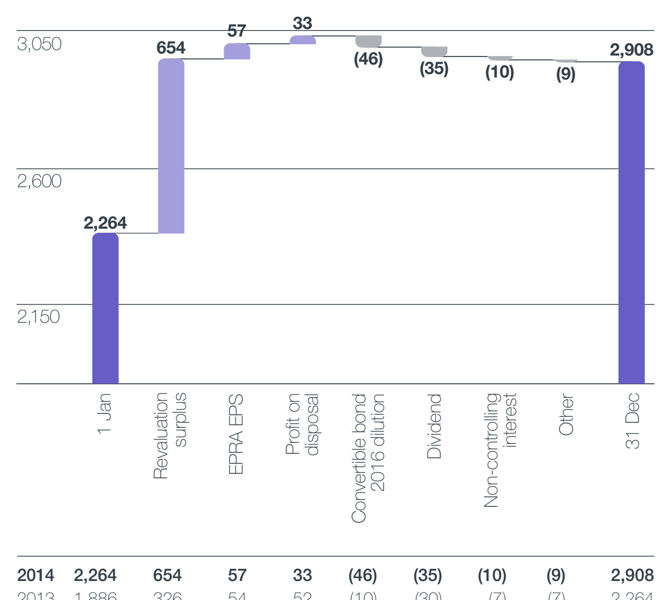
Property portfolio value, net assets and gearing

£m | %

	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014
Property portfolio at fair value	1,918	2,426	2,647	2,860	3,353	4,168
Net assets attributable to equity shareholders	1,127	1,449	1,663	1,860	2,304	3,012

■ Property portfolio at fair value — LTV ratio
■ Net assets attributable to equity shareholders

EPRA net asset value per share p



2014	**2,264**	**654**	**57**	**33**	**(46)**	**(35)**	**(10)**	**(9)**	**2,908**
2013	1,886	326	54	52	(10)	(30)	(7)	(7)	2,264

FINANCE REVIEW
CONTINUED

Income statement

As in 2013, we have continued to see a useful improvement in recurring earnings despite higher levels of regeneration activity across our portfolio. EPRA profit before tax, which excludes £3.9m of trading profits on sales of our residential units at Queens, was up to £62.3m, an increase of 7.8% from the £57.8m comparative figure in 2013. EPRA earnings per share were also increased, rising to 57.08p from 53.87p a year earlier. The overall IFRS profit before tax, which includes fair value movements on property and interest rate swap values plus profits from our disposals, was £753.7m, by far the highest annual figure that the Group has yet seen. The revaluation surplus of £667.1m generated much of this 2014 IFRS profit. A table providing a reconciliation of the IFRS to EPRA profit before tax and earnings per share is included in note 38.

With the sales of apartments at Queens contributing £15.7m, gross property and other income reached £180.5m in 2014, up from £160.5m in 2013. Gross property income for the year, almost all of which is rental income, increased by 5.2% to £138.4m from £131.6m in 2013. Additional income generated from lettings and rent reviews in 2013 and 2014 totalled £11.8m, more than offsetting the £5.7m of rent lost from lease breaks, expiries and voids and £2.7m of void costs on new schemes. An additional £5.3m came from properties acquired with £2.9m lost on properties sold and £1.6m received from 'rights of light' settlements. After taking account of irrecoverable property costs, net property and other income rose by 9.5% from £124.3m in 2013 to £136.1m. Of this, £128.7m was net rental income, 5.8% higher than in 2013.

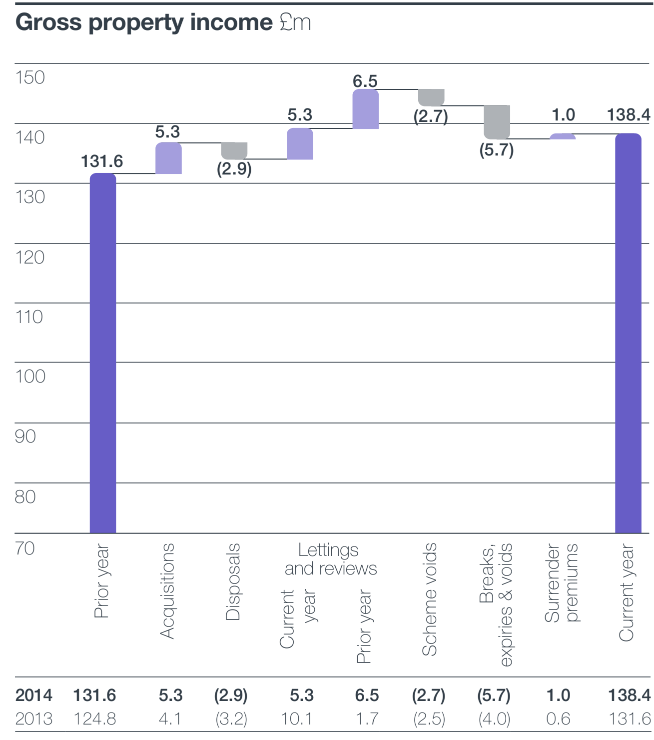
EPRA like-for-like gross rental income, which removes the impact of development activity, acquisitions and disposals, increased by 2.9% during the year with net property income on a similar basis up by 5.6%. The underlying trend is stronger than these figures indicate as the prior year benefited from £1.4m of back-rent arising from a single review. If this is also excluded, the underlying like-for-like growth rises to 4.3% for gross rents and to 7.2% for net property income. A full analysis is shown in the table below.

We have seen a 6.4% increase in the Group administrative charge for the year to £28.1m; this is largely due to increased staff numbers and higher salary, bonus and incentive payments to our staff and senior management team, the levels of which rose by £1.3m in 2014.

28.4%
increase in EPRA NAV per share

7.8%
increase in EPRA profit before tax

Gross property income £m



2014	**131.6**	**5.3**	**(2.9)**	**5.3**	**6.5**	**(2.7)**	**(5.7)**	**1.0**	**138.4**
2013	124.8	4.1	(3.2)	10.1	1.7	(2.5)	(4.0)	0.6	131.6

We have again included the EPRA cost ratios this year, the main ratio having reduced to 24.2% from 25.1% in 2013; excluding direct vacancy costs, it rose slightly to 22.9% in 2014. The ratio of irrecoverable and administrative costs to the property portfolio fair value also fell in 2014, to 0.8% from 1.0% in 2013. As in prior years, our income statement does not take account of any capitalisation of overheads, all of which are expensed in the year.

At £42.4m, finance costs were only marginally higher in 2014 than in 2013 in spite of average borrowings being about £95m higher. The total charge takes account of interest capitalised on projects of £5.3m compared with £4.8m in 2013. The reduction in our overall interest rates is largely due to the refinancing activities that we undertook during 2013.

	2014 %	2013 %
EPRA cost ratio, incl. direct vacancy costs	**24.2**	25.1
EPRA cost ratio, excl. direct vacancy costs	**22.9**	22.6
Portfolio cost ratio, incl. direct vacancy costs	**0.8**	1.0

EPRA like-for-like net rental income

	Properties owned throughout the year £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2014					
Rental income	103.3	6.2	2.0	25.2	136.7
Property expenditure	(3.9)	–	(0.1)	(4.0)	(8.0)
Net rental income	**99.4**	**6.2**	**1.9**	**21.2**	**128.7**
Profit on sale of trading properties	–	–	3.9	–	3.9
Other[1]	3.5	–	–	–	3.5
Net property income	**102.9**	**6.2**	**5.8**	**21.2**	**136.1**
2013					
Rental income	100.4	1.0	4.8	24.7	130.9
Property expenditure	(5.0)	–	(0.7)	(3.5)	(9.2)
Net rental income	95.4	1.0	4.1	21.2	121.7
Other[1]	2.0	–	–	0.6	2.6
Net property income	97.4	1.0	4.1	21.8	124.3
Increase based on gross rental income	**2.9%**				**4.4%**
Increase based on net rental income	**4.2%**				**5.8%**
Increase based on net property income	**5.6%**				**9.5%**

[1] Includes surrender premiums paid or received, dilapidation receipts, rights of light and other income

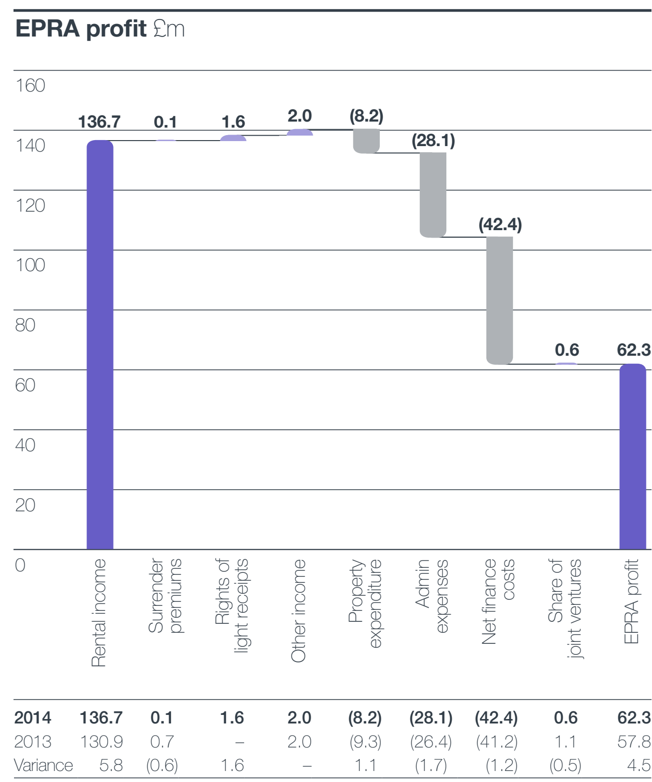
In terms of the non-recurring elements of the income statement, profits on disposal of investment properties totalled £28.2m in 2014 with a further £2.0m from the sale of our 25% interest in the shopping centre in Prague. The strong investment market for these smaller and very liquid lot sizes meant that prices achieved were particularly good. Finally, the adverse movement in derivative fair values referred to earlier was £9.4m in 2014 and there was a £2.0m cost incurred deferring two forward-start interest rate swaps.

Taxation

The tax charge for the year increased to £3.9m in 2014 from £2.4m in the previous year, most of this increase being due to a higher deferred tax charge on the revaluation of the unelected share in our 55% subsidiary held jointly with the Portman Estate which is outside the REIT regime. As in 2013, the main part of the current tax charge of £0.8m was also due to our joint investment with the Portman Estate.

In addition, £4.4m of tax was withheld during the year from shareholders on property income distributions and paid to HMRC.

EPRA profit £m



	Rental income	Surrender premiums	Rights of light receipts	Other income	Property expenditure	Admin expenses	Net finance costs	Share of joint ventures	EPRA profit
2014	**136.7**	**0.1**	**1.6**	**2.0**	**(8.2)**	**(28.1)**	**(42.4)**	**0.6**	**62.3**
2013	130.9	0.7	–	2.0	(9.3)	(26.4)	(41.2)	1.1	57.8
Variance	5.8	(0.6)	1.6	–	1.1	(1.7)	(1.2)	(0.5)	4.5

FINANCE REVIEW
CONTINUED

Debt facilities

	£m	£m	Maturity
6.5% secured bonds		175	March 2026
3.99% secured loan		83	October 2024
4.41% unsecured private placement notes		25	January 2029
4.68% unsecured private placement notes		75	January 2034
2.75% unsecured convertible bonds		175[1]	July 2016[1]
1.125% unsecured convertible bonds		150	July 2019
Committed bank facilities			
Term – secured	28		June 2018
Term/revolving credit – secured	90		December 2017
Revolving credit – unsecured	550		January 2020
		668	
At 31 December 2014		**1,351**	
Conversion of 2.75% unsecured convertible bonds		(175)[1]	
At 31 January 2015		**1,176**	

[1] Bonds all redeemed in January 2015

Maintaining strong and flexible financing

After a significant year of refinancing in 2013, we continued to strengthen our platform in 2014 and all our financing ratios improved compared to the prior year as indicated in the table below. The recent conversion of the 2016 convertible bonds into new shares in January 2015 also provides significant additional firepower to finance the pipeline in the next few years and its impact is shown as a proforma column in the table.

In January 2014, £100m of 15 and 20 year US private placement notes provided by New York Life were drawn thereby increasing headroom on our revolving bank facility. Full details were set out in last year's annual report. The Group has a strategy of arranging a sufficient amount of long-term fixed rate debt when we believe that conditions are favourable and this financing enabled us to extend the weighted average maturity of our debt without a significant increase in the average cost of our funds. The financial covenants also matched those of our unsecured bank facility.

Ensuring that the cost of our debt is competitive is another of our financing priorities. It became apparent in the second half of 2014 that conditions in the bank lending market for credits like ours had improved markedly due to increasing competition among lenders. As a result, margins being offered and up-front fees were gradually reducing. Accordingly, we engaged with the four banks providing our £550m facility and agreed an extension from September 2018 to January 2020. The margin was reduced by 35bp, effective from the date of signing on 19 December 2014. In addition, we agreed to reduce the maximum net asset gearing covenant from 160% to 145%. As our gearing had already fallen substantially from the original time that the loan was established in September 2013, there remains very significant headroom under this covenant.

These actions increased the weighted average length of our drawn debt to 6.6 years at the end of 2014, rising further to 7.9 years after conversion of the £175m convertible bonds 2016. They also increased the proportion of debt provided by non-banks to 66% from 60% at 31 December 2013. The long dated US private placement notes increased our cost of debt slightly but, by the end of the year, the spot interest rate was only slightly higher than a year earlier at 3.78% on a cash basis against 3.64% in December 2013. The IFRS rate increased to 4.22% at 31 December 2014 from 4.10% a year earlier. It is worth noting that the proforma cash and IFRS interest rates, after conversion of the 2016 bonds, rise to 3.99% and 4.27%, respectively.

Net debt and cash flow

Net debt increased again during the year to £1,013.3m from £949.2m, the main reason being £113.2m of cash outflows on projects. This includes capitalised interest of £5.3m, up from £4.8m the year before. We have continued to refresh the portfolio with new acquisitions totalling £92.2m in 2014, mainly relating to 19-23 Featherstone Street and Angel Square. We have also raised £99.0m during the year from selling six investment properties, and gross proceeds from the sale of the apartments at Queens W2 generated a further £15.7m. We will receive a further £27.3m before costs on the recently announced property swap.

Our operating cash flow in 2014 showed strong gains. Cash receipts from recent lettings, including the burning off of rent free and half rent periods, combined with low irrecoverable property costs and reduced interest payments to improve our net operating cash inflow by 14.1% to £65.6m in 2014.

The Group's loan-to-value (LTV) ratio fell to 24.0% at the year end from 28.0% in 2013. Net asset value gearing fell correspondingly to 32.9% from 40.0%. After conversion of the 2016 bonds in January 2015, the proforma LTV ratio fell further to 19.9% and the NAV gearing to 26.0%. As a result, the amount of debt within the Group could increase by a further £225m to get back to the level of NAV gearing at 31 December 2014 which indicates how much additional project headroom the latest issue of new ordinary shares has generated. Interest cover has shown similar improvements; in 2014, overall net interest cover increased to 286% from 279% in 2013 and will improve further without the £7m pa of interest (IFRS basis) on the 2016 convertible bonds.

As at 31 December 2014, the undrawn amount of financing facilities and cash totalled £336m, sufficient to cover about two years' capital expenditure and an increase over the £296m comparative figure as at 31 December 2013. With our low gearing level, uncharged properties of £2.7bn, reputation and well-established credit rating, the Group has access to additional debt sources.

£550m
of bank facilities extended at a lower margin

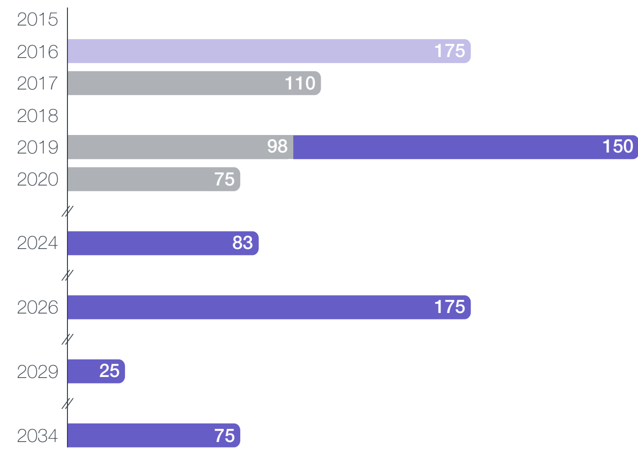
£175m
of convertible bonds converted into new shares in January 2015

Maturity profile of loan facilities £m
As at 31 December 2014

Year	Convertible bonds 2016 converted into new shares in January 2015	Drawn	Headroom
2015			
2016	175		
2017		70	20
2018		28	
2019		150	
2020		249	301
2024		83	
2026		175	
2029		25	
2034		75	

- Headroom
- Drawn
- Convertible bonds 2016 converted into new shares in January 2015

Maturity profile of fixed and hedged debt £m
As at 31 December 2014[1]



- Hedged
- Fixed rate
- Convertible bonds 2016 converted into new shares in January 2015

[1] Excludes forward start swaps

Net debt

	2014 £m	2013 £m
Cash	**(14.8)**	(12.5)
Bank facilities	**347.0**	385.0
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	**16.0**	16.9
4.41% unsecured private placement notes 2029	**25.0**	–
4.68% unsecured private placement notes 2034	**75.0**	–
2.75% unsecured convertible bonds 2016	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Equity components and unwinding of discounts on convertible bonds	**(12.9)**	(16.8)
Leasehold liabilities	**8.3**	8.2
Unamortised issue and arrangement costs	**(13.3)**	(14.6)
Net debt	**1,013.3**	949.2

Gearing and interest cover ratio

	Proforma[1] %	2014 %	2013 %
Loan-to-value ratio	**19.9**	**24.0**	28.0
NAV gearing	**26.0**	**32.9**	40.0
Net interest cover ratio	**n/a**	**286**	279

[1] After conversion of unsecured convertible bonds 2016

Debt summary

	Proforma[1] £m	2014 £m	2013 £m
Bank loans			
Floating rate	**64.0**	**64.0**	167.0
Swapped	**283.0**	**283.0**	218.0
	347.0	**347.0**	385.0
Non-bank debt			
3.99% secured loan 2024	**83.0**	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	**175.0**	175.0
2.75% unsecured convertible bonds 2016	**–**	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	**150.0**	150.0
4.41% unsecured private placement notes 2029	**25.0**	**25.0**	–
4.68% unsecured private placement notes 2034	**75.0**	**75.0**	–
	508.0	**683.0**	583.0
Total	**855.0**	**1,030.0**	968.0
Hedging profile (%)			
Fixed	**60**	**66**	60
Swaps	**33**	**28**	23
	93	**94**	83
Percentage of debt that is unsecured (%)	**58**	**65**	63
Percentage of non-bank debt (%)	**59**	**66**	60
Weighted average interest rate (%)[2]	**3.99**	**3.78**	3.64
Weighted average interest rate (%)[3]	**4.27**	**4.22**	4.10
Weighted average maturity of facilities (years)	**7.1**	**6.2**	5.9
Weighted average maturity of borrowings (years)	**7.9**	**6.6**	6.3
Undrawn facilities	**321**	**321**	283
Uncharged properties	**2,718**	**2,718**	2,144

[1] After conversion of unsecured convertible bonds 2016 into new shares
[2] Convertible bonds at 2.75% and 1.125%
[3] Convertible bonds on IFRS basis

Dividend

Growing the dividend at a meaningful but sustainable rate remains an important goal for Derwent London. With recurring earnings continuing to grow, the Board has recommended an 8.7% increase in the proposed final dividend to 28.00p per share for payment to shareholders on 12 June 2015. 22.35p will be paid as a PID and the balance of 5.65p as a conventional dividend. The total dividend for the year is 39.65p per share, an increase of 3.15p or 8.6% over 2013. The scrip dividend alternative remains popular and so, as in recent years, it will again be offered.

Our financial outlook

After an outstanding year of net asset value growth and the conversion of £175m of bonds into new shares in January 2015, we believe the Group is in a very good financial position to deliver its substantial pipeline of regeneration projects.

Your Board remains alert to the risks that development activity brings. In addition, our experience of several previous property cycles is a constant factor when assessing the amount of risk we take on and the disciplined way in which we manage the business. The London office market feels to have some way to run with solid tenant demand, robust rental growth and a relatively constrained supply of new space in our principal locations but conditions can change.

Our programme of investment in the portfolio currently anticipates £163m of capital expenditure during 2015 with a further £166m in 2016. Out of this total of £329m, £134m is contracted and £252m is associated with committed schemes. Therefore, there remains some flexibility in the delivery of this pipeline from 2017 onwards but, even allowing for this full amount of expenditure and in the absence of any further property disposals or a significant movement in property values, the Group's LTV gearing is likely to remain below 30%.

Our business model requires us to plan and deliver value-added projects to bolster our returns. In order to achieve this over the longer term, we will continue to refresh the pipeline and recycle capital to ensure a healthy balance of income and value creation. With low gearing and our focus on income generation, we believe we are well placed to fund the delivery of this pipeline while continuing to grow earnings, interest cover and the dividend that we pay our shareholders.

"In order to plan and deliver value-added projects to bolster our returns, we will continue to refresh our pipeline and recycle capital to ensure a healthy balance of income and value creation."

DAMIAN WISNIEWSKI
FINANCE DIRECTOR

SUSTAINABILITY

As with previous years, we have continued to make strong progress with our sustainability agenda, and we are pleased to say that 2014 has seen us achieve a great deal.

PAUL WILLIAMS
EXECUTIVE DIRECTOR

JOHN DAVIES
HEAD OF SUSTAINABILITY

At the start of the year, we introduced our newly revised sustainability policy and strategy, which set out a clear direction and framework. It introduced four new strategic priorities fundamental to our business, designed to capture the requirements of our six key stakeholder groups – occupiers, employees, investors, funders, communities and suppliers. Moreover we were proud to launch our new look sustainability website pages, giving access to all our key documents and data, as well as providing all the latest news and updates. Details can be found at www.derwentlondon.com/sustainability.

In addition to launching our refreshed sustainability agenda, we also set in place our clearest and toughest set of performance targets to date which are aligned to new strategic priorities. Our achievements demonstrate the hard work and commitment from our teams.

This performance has been recognised externally through a number of awards. We retained our 'Green Star' status in the Global Real Estate Sustainability Benchmark (GRESB) with top quartile performances for the European and International portfolio categories. Likewise, we were recognised in the EPRA sustainability reporting awards, receiving a gold award for the second year in a row for our annual sustainability report.

Our community work is also going from strength to strength with £75,000 invested via our Fitzrovia Community Investment Fund during 2014 with seven projects receiving funding. In total £145,000 has been invested by the fund to date across Fitzrovia, with 12 projects having benefitted already. Year three of the fund was launched earlier this year with £65,000 being made available for projects and initiatives in the area.

Whilst we present a summary of our performance during 2014 in the following pages, a comprehensive review is set out in our annual sustainability report, which can be found at www.derwentlondon.com/sustainability. This details all our work and achievements during the year, together with our datasets and measurement indicators.

"The targets for 2015 are our clearest and toughest to date and are aligned to new strategic priorities."

PAUL WILLIAMS
EXECUTIVE DIRECTOR

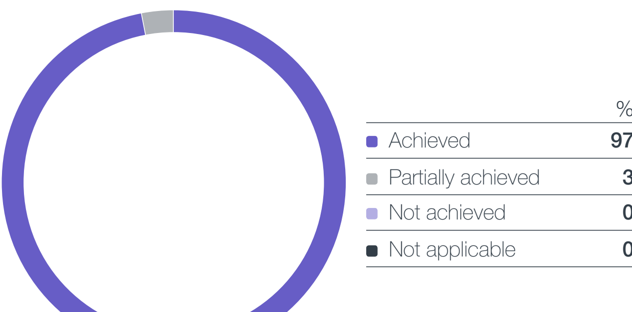
Our performance

We have worked hard to embed our four strategic sustainability priorities introduced at the beginning of the year across our business and have made significant progress against our range of targets.

Our 2014 targets have been our most stretching and detailed to date and presented us with some positive challenges. Moreover, they were specifically aligned to our strategic priorities, which allowed us to show a clear link between our refreshed strategy and performance. This enabled us to improve transparency for our stakeholders and create greater engagement across business departments.

For 2014 97% of our targets were achieved, a 9% improvement over 2013 when we achieved 88% of our targets.

Our performance



2014 PERFORMANCE HIGHLIGHTS

Resource efficiency

19%

reduction in carbon generation (all scopes) in our like-for-like portfolio

22%

reduction in energy use (electricity, gas, oil and biomass) in our like-for-like portfolio

6%

increase in our waste recycling from 56% to 62%

Communities

£145,000

awarded to projects to date from the Fitzrovia Community Investment Fund

£2,832,500

community contributions via planning

AWARDS AND RECOGNITION

Management Today

– Britain's Most Admired Companies 2014.
 1st in the property category for the fifth year in succession and 9th in the overall awards.
 4th in the property Community and Environmental Responsibility category.

EPRA Reporting Awards 2014

– Gold Award for our 2013 annual report.
– Gold Award for our 2013 annual sustainability report.

GRESB (Global Real Estate Sustainability Benchmark) 2014

– Green Star status retained with top quartile performances in the European and international rankings.

CDP 2014

– Disclosure Rating score of 86.

BREEAM Awards 2015

– Morelands rooftop scheme won the office and refurbishment fit-out category.

SUSTAINABILITY
CONTINUED

Our 2015 targets

Following a comprehensive review of our performance measures, and drawing on feedback from our stakeholders, we have refocused our approach to setting targets. They now include a number of new longer-term measures designed to stretch and challenge us further. In addition, we have created a number of new internal performance measures, based on previous targets, which have been put in place to ensure we continue to perform well.

We intend to report our progress against both these sets of measures in order to give stakeholders a greater perspective and understanding of our performance. We set out below our new targets for 2015.

Designing and delivering buildings responsibly

Aspect	Metric	Target
Future office space	Designing new spaces	Using lessons learnt and elements from our White Collar Factory concept, develop at least one new development and gain planning permission during 2015
BREEAM/EcoHomes/Code for Sustainable Homes/LEED	Rating achieved	Achieve a minimum of BREEAM Excellent for all new build projects
		Achieve a minimum of BREEAM Very Good for all major refurbishment projects
		Achieve a minimum of LEED Silver for all new build and major refurbishment projects
		Achieve a minimum of Code Level 4 or EcoHomes Very Good for residential projects
Energy and carbon	Predicting whole building energy use	All new build and refurbishment projects >5,000m^2 to undertake a design energy assessment based on CIBSE TM54
	Energy performance certificates (EPCs)	Minimum of a 'B' rating for new build projects. Minimum of a 'C' for all major refurbishments

Managing our assets responsibly

Aspect	Metric	Target
Building sustainability plans	Implementation	All managed properties to create a Building Sustainability Plan by the end of 2015
Energy and carbon	AMR installation (SMART metering)	Complete Phase 2 (landlord and tenant sub metering) of our AMR programme by the end of 2016 and identify participants for Phase 3 (tenant managed supplies)
	% reduction	Achieve a 5% reduction in landlord influenced energy consumption across our like-for-like managed portfolio by 2017
	% recycled	Increase recycling rate to 70% for managed waste in all properties for which Derwent London has management control of waste by 2017
Water	Management	Maintain portfolio mains water consumption in the like-for-like managed portfolio below 0.45m^3/m^2
Customers	Engagement	Produce at least two editions of the tenant sustainability newsletter during 2015
Suppliers	Measurement	Monitor the progress of sustainability performance measures in the new building engineering maintenance contracts

Creating value in the community

Aspect	Metric	Target
Community strategy	Strategy development	Develop an appropriate community engagement strategy and activity programme in our Tech Belt portfolio by the end of 2015
Community engagement	Fitzrovia Community Investment Fund delivery	Develop and successfully deliver year 3 of the Fitzrovia Community Investment Fund
Skills	Opportunities provided	Provide at least two work experience and/or mentoring placements

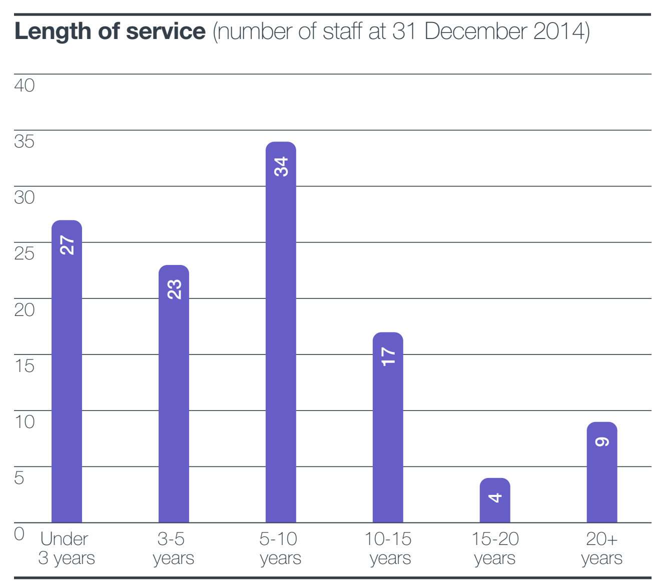
Engaging and developing our employees

Aspect	Metric	Target
Employee volunteering	Engagement	Develop and stage a young persons' careers workshop
Management systems	Process efficiency	Develop and implement a new electronic absence and holiday tracking system
Knowledge	Knowledge dissemination	Undertake at least four technical/knowledge share presentations during 2015
Employee development	Engagement	Update and refine the Employee Handbook and supporting policies by the end of 2015

OUR PEOPLE

Derwent London's culture has allowed us to recruit and retain some of the most talented people in the industry.

KATY LEVINE,
HEAD OF HUMAN RESOURCES



114
Employees

92%
Employee retention

9th
Overall in the Management Today awards for Britain's Most Admired Companies (up from 10th place in 2013)

Culture

We have a culture of creativity, innovation, collaboration and empowerment which stems from shared values. These, coupled with professionalism, integrity and commerciality are key factors in our success and define what we stand for and how we behave with our stakeholders. This approach has allowed us to recruit and retain some of the most talented people in the industry while providing above average returns for our shareholders. We operate with a flat organisational structure, and are committed to ensuring regular and open internal face-to-face communication, and a consultative leadership style. This leads to a motivated and highly engaged workforce and a high staff retention rate of 92%.

We believe that we have a duty to take appropriate measures to identify and remedy any malpractice within the Group or affecting us. We conduct our business with honesty and integrity but have a whistleblowing policy should the need arise. We engender an environment where employees are able to highlight anything that falls short of our standards.

As we continue to grow, we adapt to the changing conditions and focus on retaining our culture.

OUR PEOPLE
CONTINUED

Our structure

There are five core teams within our business that are supported by a number of other corporate departments. We draw skills from across the business functions and our teams work flexibly and collaboratively to deliver our strategy. This structure gives us the ability to handle complex challenges and deliver effectively.

As we continue to grow, we feel that we have a healthy balance of fresh talent coming into the business with 44% of our employees joining us over the last five years. This ensures that we have continuity whilst also bringing new ideas and skill sets into the business.

We regularly review our organisational structure as opportunities arise and in 2014 we were able to fill a number of important management positions by internal promotions.

Diversity

We are an inclusive employer which allows us to be more creative and provide a balanced environment for our employees. The Group has a strong commitment to ensuring equality and diversity.

Our policies, practices and procedures for recruitment, training and career opportunities are purely based on merit.

For these reasons, we have a relatively balanced workforce of 58% male and 42% female. Within our senior manager roles 28% are female.

Training and development

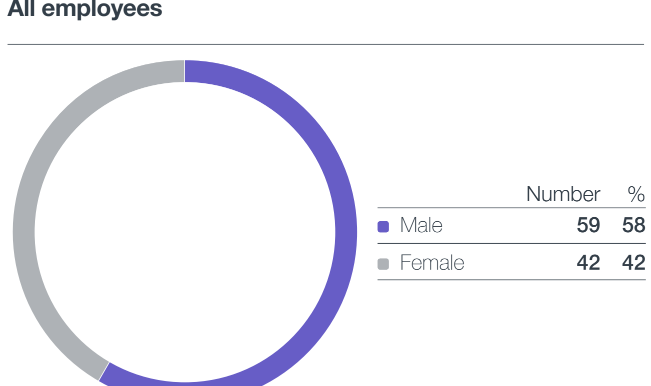
We hold six-monthly reviews and regular open discussions to highlight any training requirements and future potential. We invest in supporting employees and managers by sourcing a range of internal and external personal development opportunities which increase our management capability. Last year £84,000 was invested in staff training. We also ran induction programmes for our joiners and seven internal technical workshops with the aim of continuing our commitment to ensuring employees are aware of the Group's activities. These have been extremely well received and each workshop was attended by at least 65% of the staff.

Organisational structure

"We draw skills from across the business functions and our teams work flexibly and collaboratively to deliver our strategy."

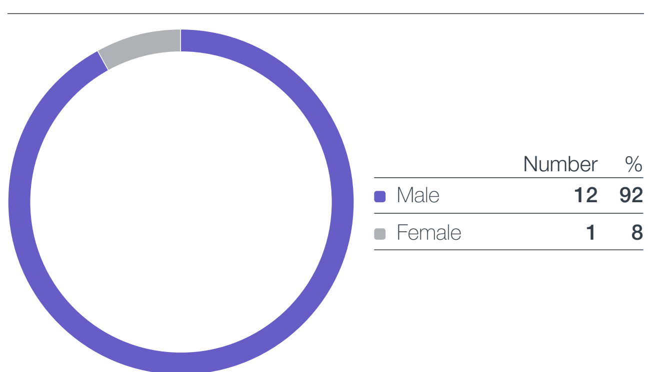
Gender split at 31 December 2014

All employees



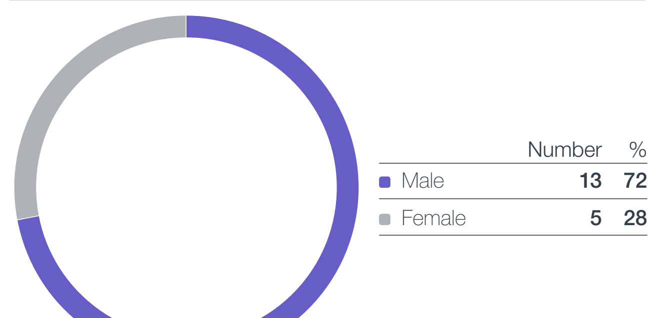
	Number	%
Male	59	58
Female	42	42

Board



	Number	%
Male	12	92
Female	1	8

Senior management (excluding Directors)



	Number	%
Male	13	72
Female	5	28

Community and volunteering

Last year we launched an employee volunteering programme where every employee has the opportunity to take one day per year to work with a charity they feel passionate about or get involved in an initiative arising from our Fitzrovia Community Investment Fund. 35% of employees were involved across a number of projects such as painting a community centre, playing in a charity football tournament or running a careers workshop for young people. This equated to 225 hours up from 59 hours in 2013.

We were very pleased when Maruf Miah, our first apprentice, won the 'Outstanding Achievement by an Apprentice' in the 2015 City Gateway Awards. In addition, we recruited a second apprentice to work alongside our experienced building managers. For more information on our community initiatives please refer to our annual sustainability report.

Reward and recognition

We recognise that, to be able to meet our expectations, we need to attract, nurture and retain our talent. Our approach is to reward people based on individual performance, and contribution to the overall company performance. During 2014 our mid-year and annual performance appraisal process and supporting tools were refreshed to reflect and emphasise our core competencies. Annual salary increases and bonuses are linked to an overall performance rating which is allocated through our appraisal system. In addition, we have a range of benefits which can include a non-contributory pension scheme, share options, maternity and paternity provision, life insurance cover, private healthcare, season ticket loans, cycle-to-work scheme and childcare vouchers. We monitor the industry to ensure we are competitive and fair.

Over the last year we have built a relationship with an external occupational health provider to provide information, advice and support on general health and wellbeing matters. This is supplemented by the introduction of an Employee Assistance Cash Plan to help our employees cover the costs of their everyday healthcare needs. In addition, there is a helpline which offers counselling and advice to employees and their families.

The strategic report on pages 16 to 75 has been approved by the Board and signed on its behalf by:

JOHN D. BURNS
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI
FINANCE DIRECTOR

26 FEBRUARY 2015

Queens, 200 Queensway W2

3 GOVERNANCE

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BOARD OF DIRECTORS

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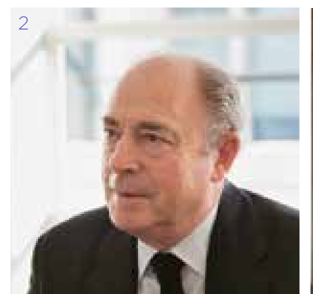

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1. ROBERT A. RAYNE, 66
NON-EXECUTIVE CHAIRMAN

Appointed to the Board: 2007
Skills and expertise: The Hon R.A. Rayne was Chief Executive Officer of London Merchant Securities plc and has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc.
Other current appointments: Non-executive Director of LMS Capital plc and of Weatherford International Inc.

2. JOHN D. BURNS, 70
CHIEF EXECUTIVE OFFICER

Appointed to the Board: 1984
Skills and expertise: A chartered surveyor and founder of Derwent Valley Holdings in 1984, John has overall responsibility for Group strategy, business development and day-to-day operations.
Other current appointments: Member of the strategic board of the New West End Company Limited.
Committees: Risk

3. DAMIAN M.A. WISNIEWSKI, 53
FINANCE DIRECTOR

Appointed to the Board: 2010
Skills and expertise: Damian is a chartered accountant and, prior to joining Derwent London, he held senior finance roles at Treveria Asset Management, Wood Wharf Limited Partnership and Chelsfield plc. He has overall responsibility for financial strategy, treasury, taxation and financial reporting.
Committees: Risk

4. SIMON P. SILVER, 64
EXECUTIVE DIRECTOR

Appointed to the Board: 1986
Skills and expertise: Co-founder of Derwent Valley Holdings, Simon has overall responsibility for the Group's development and regeneration programme. He is an honorary fellow of the Royal Institute of British Architects.

5. PAUL M. WILLIAMS, 54
EXECUTIVE DIRECTOR

Appointed to the Board: 1998
Skills and expertise: Paul is a chartered surveyor who joined the Group in 1987. His responsibilities include portfolio asset management, supervision of refurbishment and development projects and sustainability.
Other current appointments: Director of The Paddington Partnership.

6. NIGEL Q. GEORGE, 51
EXECUTIVE DIRECTOR

Appointed to the Board: 1998
Skills and expertise: Nigel is a chartered surveyor who joined the Group in 1988. His responsibilities include acquisitions and disposals and investment analysis.
Other current appointments: Director of the Chancery Lane Association

7. DAVID G. SILVERMAN, 45
EXECUTIVE DIRECTOR

Appointed to the Board: 2008
Skills and expertise: David is a chartered surveyor who joined the Group in 2002. His responsibilities include overseeing the Group's investment acquisitions and disposals.
Other current appointments: Immediate past Chairman and General Council Member of the Westminster Property Association

8. STUART A. CORBYN, 70
SENIOR INDEPENDENT DIRECTOR

Appointed to the Board: 2006
Skills and expertise: Stuart is a chartered surveyor. Until 2008, he was Chief Executive of Cadogan Estates, one of the principal private estates in London, and is a former president of the British Property Federation and former chairman of Pollen Estate Trustee Company.
Other current appointments: Non-Executive Chairman of Get London Living
Committees: Nominations (chairman), Audit, Remuneration

9. RICHARD D.C. DAKIN, 51
NON-EXECUTIVE DIRECTOR

Appointed to the Board: August 2013
Skills and expertise: Richard is a Fellow of the Royal Institution of Chartered Surveyors, an Associate Member of Corporate Treasurers and an Associate of the Chartered Institute of Bankers. In 2014, he joined CBRE as Managing Director of Capital Advisors Limited. Previously, he was employed at Lloyds Bank since 1982 where he undertook a variety of roles including commercial and corporate banking and leveraged finance, gaining extensive knowledge of property finance and the real estate sector.
Other current appointments: None
Committees: Risk (chairman), Audit, Nominations

10. JUNE F. DE MOLLER, 67
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2007
Skills and expertise: June was Managing Director of Carlton Communications Plc and has also served as a non-executive Director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc, Archant Limited and London Merchant Securities plc.
Other current appointments: Non-executive Director of Temple Bar Investment Trust plc.
Committees: Nominations, Remuneration, Risk

11. ROBERT A. FARNES, 69
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2003
Skills and expertise: Robert is a chartered surveyor and was previously the Chairman of CB Hillier Parker. He will be stepping down from the Board after the AGM in May 2015.
Committees: None

12. SIMON W.D. FRASER, 51
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2012
Skills and expertise: Simon started his career in the City in 1986 and, from 1997 to his retirement in 2011, worked at Bank of America Merrill Lynch where from 2004 he was Managing Director and co-head of corporate broking. Here he led a variety of transactions including equity raisings and advised company boards on a range of issues.
Other current appointments: Non-executive Director of Lancashire Holdings Limited and of Legal and General Investment Management Holdings.
Committees: Remuneration (chairman), Audit, Nominations

13. STEPHEN G. YOUNG, 59
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2010
Skills and expertise: Stephen is a chartered management accountant. He has held a number of senior financial positions including Group Finance Director at Meggitt PLC, Thistle Hotels plc and the Automobile Association.
Other current appointments: Chief Executive of Meggitt PLC.
Committees: Audit (chairman), Risk, Remuneration

SENIOR MANAGEMENT

EXECUTIVE COMMITTEE

The Executive Committee comprises the executive Directors and the following four senior managers

CELINE THOMPSON
HEAD OF LEASING

RICHARD BALDWIN
HEAD OF DEVELOPMENT

SIMON TAYLOR
HEAD OF ASSET MANAGEMENT

TIM KITE
COMPANY SECRETARY

SENIOR MANAGEMENT

DAVID WESTGATE
HEAD OF TAX

JOHN DAVIES
HEAD OF SUSTAINABILITY

KATY LEVINE
HEAD OF HUMAN RESOURCES

MARK MURRAY
HEAD OF INFORMATION TECHNOLOGY

QUENTIN FREEMAN
HEAD OF INVESTOR AND CORPORATE COMMUNICATIONS

RICK MEAKIN
GROUP FINANCIAL CONTROLLER

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and the report of the Remuneration Committee which comply with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors, whose names and functions are listed on page 79, confirm to the best of their knowledge:

- they have complied with the above requirements in preparing the financial statements which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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 the Group's performance, business model and strategy.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the Board.

JOHN D. BURNS,
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI,
FINANCE DIRECTOR

26 FEBRUARY 2015

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board I am pleased to present the Group's Corporate Governance report for 2014.

The Company is subject to the provisions and principles of the UK Corporate Governance Code (the Code) which is published and regularly updated by the Financial Reporting Council (FRC). The latest applicable update was released in September 2012 and the Board believes that, in 2014, the Company has complied with the main and supporting principles of the Code except for provision B.1.1. This provision addresses the independence of the Company's non-executive Directors and is discussed below and on page 83.

In September 2014 the FRC published its latest revision of the Code which is effective for accounting periods commencing on or after 1 October 2014. As such, this is not yet binding on the Company but I am pleased to be able to report that the Group is largely compliant with the new requirements.

Following the significant changes over the last two years in the reporting of both the Remuneration Committee and the Audit Committee, 2014 has been a year of consolidation for these Committees. Meanwhile, the agenda for the Risk Committee continues to grow and some of these developments are discussed below.

Risk
With the publication in September 2014 of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting attention was drawn to the adequacy of the systems companies use to manage their portfolio of risks. The Group's risk assessment process has been externally reviewed and found to be consistent both with these latest guidelines and the relevant international standard.

Given the current debate on UK taxation, the Board has determined that tax can represent a significant risk. Therefore, it is again pleasing that, following the annual review, the company has retained its low risk rating with HMRC.

Board composition
One of the cornerstones of effective corporate governance is maintaining a properly balanced Board which facilitates effective challenge by the non-executive Directors. Over the last few years the Nominations Committee has worked steadily to achieve this through the recruitment of a number of independent non-executive Directors and the Board has asked the Committee to continue the refreshment process to ensure that the Board remains properly balanced. In November 2014, one of the non-executive Directors, Richard Dakin, was appointed Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, and became a member of their UK Management Board. The Valuation Advisory division of CBRE acts as the Group's external valuer and, recognising the effect that this was likely to have on the perception of his independence, the Board reviewed Richard's position. Following this, the Board is completely satisfied that he remains independent in judgement and character and it has established a protocol to ensure that Richard has no involvement, at any stage, in the Group's valuation exercise and that he takes no part in any discussions concerning CBRE's role or fees.

Audit
In my letter last year I mentioned that the Audit Committee was leading an audit tendering process. This was completed in March 2014 and I am delighted to welcome PricewaterhouseCoopers as the Group's new Auditor.

Maintaining the governance framework requires a significant allocation of resources at all levels of the Group. However, the Board remains convinced that such a framework not only ensures compliance with governance regulations but is an essential element of running a sustainable and successful business.

As always, I would encourage you to attend the Group's Annual General Meeting on 15 May 2015 and take the opportunity to meet the management team at this important event.

On behalf of the Board.

ROBERT A. RAYNE
CHAIRMAN

26 FEBRUARY 2015

DIRECTORS' REPORT

TIMOTHY KITE
COMPANY SECRETARY

The Board
At the end of the year the Board consisted of:

Seven non-executive Directors:

Robert Rayne	Chairman
Stuart Corbyn	Senior Independent Director
Robert Farnes	
Stephen Young	
June de Moller	
Simon Fraser	
Richard Dakin	

Six executive Directors:

John Burns	Chief Executive Officer
Simon Silver	
Damian Wisniewski	
Nigel George	
Paul Williams	
David Silverman	

The Directors present their annual report and audited financial statements for the year ended 31 December 2014.

A review of the development of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects is included in the Chairman's statement and the strategic report earlier in this report.

As noted in the Chairman's letter on Corporate Governance above, Robert Farnes is not deemed independent under the criteria given in provision B.1.1. of the Code having served on the Board for more than nine years. The Board has therefore specifically considered his independence.

Along with a number of institutional investors the Board does not believe that length of service is necessarily a complete or accurate guide to a Director's independence and therefore it has reviewed the manner in which Robert carried out his duties during the year. In the Board's opinion, he has shown commitment to his role and the effective manner in which he applies his experience and exercises his judgement continues to demonstrate an independent state of mind.

Despite the Board having no reservations about his independence, in accordance with best practice Robert will not be standing for re-election at the Company's forthcoming Annual General Meeting (AGM).

In addition, in November 2014, Richard Dakin was appointed Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited and became a member of their UK Management Board.

CBRE is one of the world's leading property services advisory firms offering many different property services with its global headquarters in Los Angeles. The Group uses their services as a valuer, investment adviser and agent. In view of this continuing relationship, the Board has considered the impact of his new role on Richard's independence as a non-executive Director. Having considered the lines of reporting and responsibilities in CBRE and after seeking additional assurance from them that, in their view, his independence is not compromised, the Board has concluded that Richard remains independent both in character and judgement.

It has been agreed that Richard will not take part in any considerations of the valuation of the Group's property portfolio at either Board or Committee level. In addition, he will have no involvement in any discussions or decisions regarding the appointment of CBRE or the fees paid to them.

The Group's Nominations Committee continues to monitor the composition, independence and balance of the Board to ensure that the non-executive Directors are able to effectively challenge the views of the executive Directors. As part of this process the Committee has appointed an independent recruitment agency to assist with the process of recruiting a non-executive Director to replace Robert Farnes.

An important element of assessing the composition of the Board involves considering its diversity, having particular regard to the requirements concerning gender diversity included in the 2012 revision of the Code. The Board's overriding aim is for it to have the correct balance of skills, experience, length of service and knowledge of the Group to deliver the Group's strategy whilst recognising the importance of diversity and the requests made by Lord Davies of Abersoch through the BIS. The Board does not intend to apply 'positive discrimination' in its appointments and would stress that these will continue to be made based purely on merit having given due regard to the benefits of diversity in its widest sense and the extent to which the applicant can provide the set of skills identified at the start of the process. Within this environment, the Nominations Committee's aim is for an additional female Director to be the next appointment to the Board.

The Board currently includes one female (8%) and the gender mix throughout the Group is illustrated in the diagrams on page 75.

Taking all factors into account the Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to deliver the Group's strategy and to satisfy the requirements of good corporate governance.

The Board is responsible for setting the Group's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the Board is maintained which includes decisions relating to strategy and management, structure and capital, internal control and corporate governance, major contracts, certain external communications and Board membership. The list is reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2015. Extra meetings will be arranged if necessary. The Executive Committee which consists of the executive Directors plus four of the Group's senior managers met 11 times throughout the year. Both bodies are provided with comprehensive papers in a timely manner to ensure that they are fully briefed on matters to be discussed at these meetings.

Directors' attendance at Board and Executive Committee meetings during the year was as follows:

	Full Board	Executive Committee
Number of meetings	6	11
Executive		
John Burns	6	11
Simon Silver	6	11
Damian Wisniewski	6	11
Paul Williams	6	11
Nigel George	6	11
David Silverman	6	11
Non-executive		
Robert Rayne	4	–
Stuart Corbyn	6	–
Richard Dakin	6	–
June de Moller	6	–
Robert Farnes	5	–
Simon Fraser	6	–
Stephen Young	5	–

A formal schedule, which has been approved by the Board, sets out the division of responsibilities between the Chairman, who is responsible for the effectiveness of the Board and the Chief Executive Officer, who is responsible for the day-to-day operations of the business.

The Board maintains a number of Board Committees. The terms of reference of each Committee are available on the Group's website www.derwentlondon.com. Set out below are details of the membership and duties of the four principal committees that operated throughout 2014.

• – attended
o – not attended

Remuneration Committee
Membership and attendance

Simon Fraser	Chairman	•	•	•	•
Stuart Corbyn		•	•	o	•
June de Moller		•	o	o	•
Stephen Young		•	•	•	•

The Committee is responsible for establishing the Group's remuneration policy and individual remuneration packages for the executive Directors and selected senior executives. There were four meetings of the Committee in 2014 and the report of its activities is set out on pages 93 to 110.

Nominations Committee
Membership and attendance

Stuart Corbyn	Chairman	•	•	•	•
June de Moller		•	•	•	•
Robert Farnes	(until Dec 2014)	•	•	•	•
Simon Fraser		•	•	•	•
Richard Dakin	(from July 2014)	n/a	•	•	•

The Committee's responsibilities include identifying external candidates for appointment as Directors and, subsequently, recommending their appointment to the Board. If requested, the Committee will make a recommendation concerning an appointment to the Board from within the Group. The Committee met four times during 2014 and the report of the Nominations Committee is on page 111.

Risk Committee
Membership and attendance

Richard Dakin	Chairman from August 2014	•	•	•
June de Moller	Chairman until August 2014	•	•	•
Stephen Young		•	•	o
John Burns		•	•	•
Damian Wisniewski		•	•	•

The Committee's main responsibility is to review the effectiveness of the Group's internal control and risk management systems. It met three times during the year and the Committee's report is on page 112.

Audit Committee
Membership and attendance

Stephen Young	Chairman	•	•	•	o
Stuart Corbyn		•	•	•	•
Richard Dakin		•	•	•	•
Simon Fraser		•	•	•	•

The Committee is responsible for reviewing, and reporting to the Board on, the Group's financial reporting and for maintaining an appropriate relationship with the Group's Auditor. The Committee met four times during 2014 and the report of the Audit Committee is on pages 114 and 115.

Performance evaluation
With regard to the requirement of provision B.6.2 of the Code an independent third party was again used to facilitate the annual review of the effectiveness of the Board and its Committees. This is the second time that an external review has been carried out since the internal assessment carried out in 2012.

The review took the form of a confidential, online survey which was completed by all the Directors and the Company Secretary. The survey covered the processes and performance of the Board, the Committees and the Chairman with particular focus on risk management and Board information. The performance of individual Directors was assessed by the Remuneration Committee as part of the salary review process.

The facilitator prepared reports for each body which were considered by the Chairman as well as the chairmen of the relevant Committees. As a result of the review, the structure and content of the Board packs prepared for each Board meeting is to be reviewed to ensure that it is still an effective format to provide the Directors with the appropriate information.

Last year's review highlighted a requirement for the non-executive Directors to have a greater input into the strategy of the Group. A separate session was arranged to facilitate this and the 2014 review shows that the issue has been successfully addressed.

As a result of this evaluation, the Board is satisfied that the structure, mix of skills and operation of the Board continues to be satisfactory and appropriate for the Group. In addition, the Chairman is satisfied that the non-executive Directors, whom are standing for re-election at the AGM, continue to be effective and show a high level of commitment to their roles. In forming this assessment, the Chairman paid particular attention to those Directors that had served on the Board for more than six years.

The performance of the Chairman was assessed by the non-executive Directors under the leadership of the Senior Independent Director using the responses to that section of the survey.

Appointment and replacement of Directors
Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

The Board shall consist of not less than two Directors and not more than 15. Shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Other than as required by the shareholding guideline monitored by the Remuneration Committee, a Director shall not be required to hold any shares in the Company. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company and is then eligible for re-appointment. The Board or any Committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

The articles provide that, at every AGM of the Company, any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. However, in accordance with Provision B.7.1 of the Code the Company subjects all Directors to annual re-election and therefore at the next AGM all the Directors, other than Robert Farnes who is retiring at the end of the meeting, will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on page 79.

The Company may by special resolution remove any Director before the expiration of his period of office. The office of a Director shall be vacated if:

- he resigns or offers to resign and the Board resolves to accept such offer; his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number;
- he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated;
- he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated;
- he becomes bankrupt or enters into an agreement with his creditors generally;
- he is prohibited by a law from being a Director;
- he ceases to be a Director by virtue of the Companies Acts; or
- he is removed from office pursuant to the Company's articles.

If considered appropriate, new Directors are provided with external training that addresses their role and duties as a Director of a quoted public company. Existing Directors monitor their own continued professional development and are encouraged to attend courses that keep their market and regulatory knowledge up to date. In addition, any training and development requirements are discussed during the one-to-one meetings between the Chairman and the Directors.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. Directors' and officers' liability insurance is maintained by the Company.

Powers of the Directors
Subject to the Company's articles, the Companies Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors
The Directors of the Company during the year and their interests in the share capital of the Company, including deferred shares and shares over which options have been granted under the performance share plan, are shown below. All of these interests are held beneficially.

There have been no changes in any of the Directors' interests between the year end and 26 February 2015.

The Directors do not participate in the Executive Share Option Scheme. During the year, a conditional grant of 195,385 shares was made to Directors under the Performance Share Plan (PSP) whilst 128,091 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 102,959 shares of this award made to Directors lapsed.

Other than as disclosed in note 37 the Directors have no interest in any material contracts of the Company.

Conflicts of interest
The Company's articles permit the Directors to regulate conflicts of interest. The Board operates a policy for managing and, where appropriate, approving conflicts or potential conflicts of interest whereby Directors are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The register of potential conflicts of interest is regularly reviewed by the Risk Committee and the Board is satisfied that this policy has operated effectively throughout the period.

Communication with shareholders
The Company recognises the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive Directors, by giving presentations and organising visits to the Group's property assets. The Board receives regular reports of these meetings which include a summary of any significant issues raised by the shareholders. The annual report, which is available to all shareholders, reinforces this communication. The Group's website www.derwentlondon.com, which includes the presentations made to analysts at the time of the Group's interim and full year results, together with the social media channels that the Group uses, provide additional sources of information for shareholders. Websites for specific developments are used to help explain the Group's current activities to shareholders in more detail. The AGM provides an opportunity for shareholders to question the Directors and, in particular, the chairmen of each of the Board Committees. An alternative channel of communication to the Board is available through Stuart Corbyn, the Senior Independent Director.

	Ordinary shares of 5p each		Options and deferred shares	
	31 Dec 14	31 Dec 13	**31 Dec 14**	31 Dec 13
R.A. Rayne[1]	**4,409,295**	4,409,295	**–**	66,730
J.D. Burns	**738,244**	790,272	**163,203**	177,460
S.P. Silver	**294,887**	352,576	**139,963**	152,215
N.Q. George	**47,550**	37,179	**89,222**	92,171
P.M. Williams	**44,551**	39,180	**90,084**	92,171
D.G. Silverman	**16,469**	15,585	**85,737**	83,969
D.M.A. Wisniewski	**21,781**	13,794	**90,084**	91,185
S.A. Corbyn	**1,000**	1,000	**–**	–
R.D.C. Dakin	**–**	–	**–**	–
J. de Moller	**2,985**	2,985	**–**	–
R.A. Farnes	**5,628**	6,138	**–**	–
S.W.D. Fraser	**–**	–	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
J.C. Ivey (retired 31 December 2013)	**n/a**	79,072	**–**	–

[1] Includes shares held by the Rayne Foundation and the Rayne Trust, both of which R.A. Rayne is a trustee.

Risk management and internal control

The principal risks and uncertainties facing the Group in 2015 together with the controls and mitigating factors are set out on pages 22 to 27. Details of the price, credit, liquidity and cash flow risks that are inherent in the Group's business are given in note 24 on pages 152 and 153. The key elements of the Group's internal control framework which is designed to manage and control the Group's risks are:

- an approved schedule of matters reserved for decision by the Board and the Executive Committee supported by defined responsibilities and levels of authority;
- the day-to-day involvement of the executive Directors in all aspects of the Group's business;
- a comprehensive system of financial reporting and forecasting including both sensitivity and variance analysis;
- maintenance, updating and regular review by the Risk Committee of the Group's risk register; and
- a formal whistleblowing policy.

The effectiveness of this system and the operation of the key components thereof have been reviewed for the accounting year and the period to the date of approval of the financial statements.

The Board was able to assess the effectiveness of the controls through the close day-to-day involvement of the executive Directors in the operation of many of the controls and the various reports that the Board receives which enable any significant control failure to be identified.

The Board has considered the need for an internal audit function but continues to believe that this is unnecessary given the size and complexity of the Group.

Report and accounts

The Board has considered the Group's report and accounts and, taking into account the recommendation of the Audit Committee, is satisfied that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

Share capital

As at 25 February 2014, the Company's issued share capital comprised a single class of 5p ordinary shares. Details of the ordinary share capital and shares issued during the year can be found in note 27 to the financial statements.

Derwent London shares held by the Group

At 31 December 2014 the Group held 38,223 Derwent London shares in order to deliver the deferred bonus shares to the Directors when the deferral periods expire. Movements on the holding of these shares are detailed below:

Transaction	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Holding at 1 January 2013	42,895	0.042		700,063
Acquired on 27 March 2013	18,316	0.018	21.39	391,779
Maximum holding during 2013	61,211	0.060		1,091,842
Disposed on 4 April 2013	(27,775)	(0.027)	21.50	(597,162)
Holding at 31 December 2013	33,436	0.033		494,680
Disposal on 2 April 2014	(24,275)	(0.024)	27.34	(663,678)
Acquired on 7 April 2014	29,062	0.028	26.97	783,802
Maximum holding during 2014 and holding as at 31 December 2014	**38,223**	**0.037**		**614,804**

Rights and restrictions attaching to shares

The Company can issue shares with any rights or restrictions attached to them as long as this is not restricted by any rights attached to existing shares. These rights or restrictions can be decided either by an ordinary resolution passed by the shareholders or by the Directors as long as there is no conflict with any resolution passed by the shareholders. These rights and restrictions will apply to the relevant shares as if they were set out in the articles. Subject to the articles, the Companies Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Variation of rights

If the Companies Act allows this, the rights attached to any class of shares can be changed if it is approved either in writing by shareholders holding at least three-quarters of the issued shares of that class by amount (excluding any shares of that class held as treasury shares) or by a special resolution passed at a separate meeting of the holders of the relevant class of shares. This is called a 'class meeting'.

All the articles relating to general meetings will apply to any such class meeting, with any necessary changes. The following changes will also apply:

- a quorum will be present if at least two shareholders who are entitled to vote are present in person or by proxy who own at least one-third in amount of the issued shares of the class (excluding any shares of that class held as treasury shares);
- any shareholder who is present in person or by proxy and entitled to vote can demand a poll; and
- at an adjourned meeting, one person entitled to vote and who holds shares of the class, or his proxy, will be a quorum.

The provisions of this article will apply to any change of rights of shares forming part of a class. Each part of the class which is being treated differently is treated as a separate class in applying this article.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

No person holds securities in the Company carrying special rights with regard to control of the Company.

Voting

Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act. Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the articles.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting

Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he has not paid all amounts relating to those shares which are due at the time of the meeting, or if he has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

Powers in relation to the Company issuing or buying back its own shares

The Directors were granted authority at the last AGM held in 2014 to allot relevant securities up to a nominal amount of £1,708,630. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,844,352 and (ii) up to a nominal amount of £3,688,705 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the 'section 551 authority'), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £553,306. A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,066,114 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Substantial shareholders

In addition to those of the Directors disclosed on page 86, the Company has been notified of the following interests in the issued ordinary share capital as at 25 February 2015.

	Number of shares	Percentage of issued share capital
Invesco Inc	5,242,406	4.74
Blackrock Investment Management (UK) Ltd	5,143,432	4.65
Standard Life Investments	4,284,390	3.87
Lady Jane Rayne	3,593,838	3.25
Withers Trust Corporation Ltd	3,593,146	3.25

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share-based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking arrangements are terminable upon a change of control of the Company.

As a REIT, a tax charge may be levied on the Company if it makes a distribution to another company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the company, (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made. The Company's articles give the Directors power to take such steps, including the power:

- to identify a substantial shareholder;
- to withhold the payment of dividends to a substantial shareholder; and
- to require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement which is essential to the business of the Company.

Amendment of articles of association

Unless expressly specified to the contrary in the articles of the Company, the Company's articles may be amended by a special resolution of the Company's shareholders.

Fixed assets

The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2014, resulting in a surplus of £683.8m, before deducting the lease incentive adjustment of £11.9m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £4,089.8m. Further details are given in note 16 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 35 of the financial statements.

Going concern

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

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

The Group's risks and risk management processes are set out on pages 22 to 27.

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

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information.

Auditors

Having been appointed during the year, PricewaterhouseCoopers LLP has expressed its willingness to continue in office and accordingly, resolutions to reappoint it and to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 16 and 17 set out in the notice of meeting.

Our carbon footprint

We present below our annual GHG (greenhouse gas) emissions profile for 2014 compared to our 2013 baseline. In addition there are a set of intensity ratios appropriate for our business, both of which align with the requirements of the Companies Act 2006 (Strategic and Directors' Report Regulations 2013).

We have seen reductions in our overall CO_2e/m^2 intensity of 9.7% (this excludes Scope 1 fugitive emissions).

For further analysis and detail on our GHG emissions please see our 2014 annual sustainability report, which can be found at www.derwentlondon.com/sustainability.

Whole portfolio carbon generation

			2014 tCO_2e	2013 tCO_2e	% change
Scope 1	Energy-use	Gas (total building)	**2,295**	3,691	(37.8)
		Oil (total building)	**78**	62	25.8
	Travel	Fuel use in Derwent London company cars for business travel	**19**	19	–
	Fugitive emissions	Refrigerant emissions	**774**	1,000	(22.6)
Scope 2	Energy-use	Electricity use – generation (landlord-controlled areas and Derwent London occupied floor area)	**5,527**	6,978	(20.8)
Scope 3	Energy-use	Electricity use – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	**842**	1,063	(20.8)
		Electricity use – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	**557**	703	(20.8)
		Gas (total building)	**308**	496	(37.9)
		Oil (total building)	**16**	12	25.0
	Travel	Fuel use in Derwent London company cars for business travel WTT	**4**	4	–
		Business air travel WTT	**5**	3	66.7
		Business air travel	**41**	24	70.8
	Water	Water use (total building)	**46**	44	4.5
Total	**All**	**All**	**10,512**	14,098	(25.4)
Out of scope	Energy-use	Biomass use (total building)	**26**	22	18.2

Intensity

tCO_2e/£m turnover (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	62.81	89.29	(29.7)
tCO_2e/m^2 (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	0.028	0.031	(9.7)

Data notes

Reporting period	1 January 2014 to 31 December 2014
Baseline year	2013 (restated)
Boundary (consolidation approach)	Operational control
Alignment with financial reporting	The only variation is that the GHG emission data presented does not account for single-let properties or properties for which we do not have management control, and therefore cannot be responsible for. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions factor source	Defra, May 2014 – www.ukconversionfactorscarbonsmart.co.uk
Independent assurance	Public limited assurance provided by Deloitte LLP over all Scope 1 and 2 GHG emissions data.
Data changes and restatements	We have restated our 2013 baseline emissions figures in response to changes made by Defra to the suite of UK conversion factors.

Annual General Meeting

The notice of meeting contained in the circular to shareholders that accompanies the report and accounts includes four resolutions to be considered as special business.

Resolution 18 is an ordinary resolution to renew the authority of the Directors under Section 551 of the Companies Act 2006 to allot shares. Paragraph A of the resolution gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £1,844,352 which represents about one-third of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

In line with guidance issued by the Investment Association, paragraph B of the resolution gives the Directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £3,688,705, as reduced by the nominal amount of any shares issued under paragraph A of the resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

The Directors have no present intention of issuing shares except on the exercise of options under the Company's share option scheme, on the vesting of shares under the Company's performance share plan or in connection with the scrip dividend scheme. The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 15 August 2016.

Resolution 19 is a special resolution to renew the Directors' authority under Sections 571 and 573 of the Companies Act 2006. The resolution empowers the Directors to allot shares or sell treasury shares for cash in connection with pre-emptive offers and the scrip dividend scheme (where the scrip election is made after the declaration (but before payment) of a final dividend) with modifications to the requirements set out in Section 561 of the Companies Act 2006. The resolution further empowers the Directors to allot or, in the case of treasury shares, sell shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £553,306 which is equivalent to approximately 10% of the issued share capital as at the latest practicable date prior to the publication of this document provided that, unless the proceeds of such allotment or sale are to be applied in connection with an acquisition or specified capital investment, this authority is limited to 5% of the issued share capital.

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period, which provide that usage in excess of 7.5% (excluding in connection with an acquisition or specified capital investment) should not take place without prior consultation with shareholders.

Allotments made under the authorisation in paragraph B of resolution 18 would be limited to allotments by way of a rights issue (subject to the right of the Board to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 15 August 2016.

Resolution 20 is a special resolution to renew the authority enabling the Company to purchase its own shares. This authority enables the Directors to act quickly, if, having taken account of all major factors such as the effect on earnings and net asset value per share, gearing levels and alternative investment opportunities, such purchases are considered to be in the Company's and shareholders' best interest while maintaining an efficient capital structure. The special resolution gives the Directors authority to purchase up to 10% of the Company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought. The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 15 August 2016.

The Companies Act 2006 permits the Company to hold any such repurchased shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them. Accordingly, if the Company purchases any of its shares pursuant to resolution 20, the Company may cancel those shares or hold them in treasury. Such a decision will be made by the Directors at the time of purchase on the basis of the Company's and shareholders' best interests. As at the date of the notice of meeting, the Company held no shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 26 February 2015 was 953,460 which represented 0.86% of the issued share capital (excluding treasury shares) at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 26 February 2015 would represent 1.07% of the issued share capital (excluding treasury shares).

Resolution 21 is required to reflect the implementation of the Shareholder Rights Directive which, in the absence of a special resolution to the contrary, increased the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. The shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and it is thought to be to the advantage of the shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Approved by the Board and signed on its behalf by:

TIMOTHY J. KITE ACA
COMPANY SECRETARY

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for 2014. The Committee was very satisfied with the level of support received from shareholders for the revised remuneration structure introduced in 2014. This resulted in 99.5% votes being cast in favour of the Directors' Remuneration Policy Report and 98.1% in favour of the annual report of the Remuneration Committee at the Group's 2014 AGM.

Derwent London's objective continues to be to deliver above average long-term returns to shareholders. In an industry where relatively few people manage a large and complicated business this can only be achieved by recruiting and retaining the best people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this without incentivising management to run excessive levels of risk.

The Committee believes that certain elements of the structure such as: the deferral of part of the annual bonus; extended holding periods for vested LTIP awards; clawback provisions; and shareholding guidelines ensure that the policy promotes long-term sustainable performance as required by the updated UK Corporate Governance Code.

Performance and reward for 2014

As discussed in the strategic report, the Group has delivered an increase in EPRA net assets per share of 28.4% and a total return of 30.1%. The structure of the Group's bonus scheme was adjusted as part of last year's review of the Directors' remuneration arrangements, so this strong performance was assessed against a revised balance of performance measures. The outcome derived from this measurement combined with the discretionary element assessed by the Committee to reflect other corporate objectives, resulted in a bonus entitlement of 92.6% of maximum potential.

Awards made under the Group's 2004 Performance Share Plan (PSP) in 2012 were subject to two conditions, each covering 50% of the award. One was based on relative total shareholder return (TSR) performance against a group of other real estate companies and the other was based on net asset value growth compared to the return from properties in the IPD Central London Offices Total Return Index. The performance criteria were measured at the end of the year and 50% of the total awards are expected to vest. The net asset value part of the award was measured to 31 December 2014 and the TSR part will be measured to 12 April 2015.

The Committee believes the annual bonus outturn and anticipated PSP vesting during the year fairly represents Group performance over their respective performance periods.

Remuneration policy for 2015

As a Committee we are committed to ensuring that rewards for executives are aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets. These targets focus our management team on growing the Group's net asset value and increasing total return which in turn should deliver above market returns to shareholders. The Committee is confident that the structure implemented during 2014 continues to meet these objectives.

The Committee reviewed executive Directors' salary levels in December 2014 and agreed a basic increase of 3% for 2015. This took into account another excellent year of performance by the management team over all areas of the business in 2014 and the competitive nature of the market for top performing executives in the real estate sector. The executive salary increases are below the average salary increases for the rest of the Group.

The Committee is not proposing to make any changes to the remuneration policy and therefore we will not be seeking any new approval for the Directors' Remuneration Policy Report at the forthcoming AGM on 15 May 2015.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

26 FEBRUARY 2015

REPORT OF THE REMUNERATION COMMITTEE

This part of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Act'). The overall remuneration policy has been developed in compliance with the principles of the UK Corporate Governance Code 2012 and the Listing Rules. The policy, having been approved by shareholders at the 2014 AGM, is currently intended to be applied throughout the three-year period that commenced on 16 May 2014. For information purposes only, the policy report is represented, although with changes made to reflect page references, removal of prior year information when no longer relevant, the dates of the service contracts signed after the 2014 AGM (although in line with the terms disclosed last year) and the removal of the remuneration scenario chart. The full original report can be viewed on the Company's website (www.derwentlondon.com). The annual statement by the Chairman of the Remuneration Committee and the annual report on Directors' remuneration will be put to an advisory vote at the 2015 AGM on 15 May 2015.

Directors' remuneration policy report

The Committee, on behalf of the Board, is responsible for determining remuneration packages for the executive Directors and selected other senior executives. It also oversees the operation of the Group's bonus scheme and PSP and considers whether the schemes encourage the taking of excessive business risk.

The key aims of the Committee's remuneration policy for senior executives are:

- to ensure that the Company attracts, retains and motivates executives who have the skills and experience necessary to make a significant contribution to the delivery of the Group's objectives;
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to the level of remuneration in similar sized FTSE 350 companies. The Committee also takes account of the pay and conditions throughout the Company;
- to align, as far as possible, the interests of the senior executives with those of shareholders by providing a significant proportion of the Directors' total remuneration potential through a balanced mix of short and long-term performance related elements that are consistent with the Group's business strategy;
- to enable executive Directors to accumulate shareholdings in the Company over time that are personally meaningful to them;
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice; and
- to ensure that the Group's remuneration structure does not encourage management to adopt an unacceptable risk profile for the business.

The policy table below sets out the broad principles which will be applied when setting the individual remuneration packages of Directors. This should be read in conjunction with the recruitment and promotions policy on page 100 and the application of policy for 2015 on pages 101 to 110.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Executive Director policy table

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Reviewed annually, with effect from 1 January. Review reflects: ■ Role, experience and performance. ■ Economic conditions. ■ Increases throughout the rest of the business. ■ Levels in companies with similar characteristics. Salaries are set after having due regard to the salary levels operating in companies of a similar size and complexity, the responsibilities of each individual role, individual performance and an individual's experience. Our overall policy, having had due regard to the factors noted, is normally to target salaries at around the market median level.	The current salary levels are detailed in the Annual Report on Remuneration on page 102 and will be eligible for increases during the period that the Directors' remuneration policy operates. During this time, to the extent that salaries are increased, increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases beyond those linked to the workforce generally (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases over the subsequent few years, in order to bring the salary to the desired position, subject to individual performance.	A broad assessment of personal and corporate performance is considered as part of the salary review
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives. Medical benefits to help minimise disruption to business.	Directors are entitled to private medical insurance, car and fuel allowance and life assurance. The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce.	The maximum cost of providing benefits is not pre-determined and may vary from year to year based on the overall cost to the Company in securing these benefits for a population of employees (particularly health insurance and death-in-service cover)[1]	None

[1] In relation to the types of benefits detailed in the above table, the only benefit which is considered to be significant in value terms is the provision of a company car (or the provision of cash in lieu of providing a company car). The value of the benefit will be either the taxable value assessed according to HMRC rules when a company car is provided or the cash amount in the case of cash in lieu of a company car. In either case, the provision of this benefit is limited to a cost of £50,000.

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Pension	To help recruit and retain high calibre executives and reward continued contribution to the business.	The Company operates a defined contribution pension scheme. Where contributions would exceed either the lifetime or annual contribution limits cash payments in lieu are made.	Directors receive a contribution or cash supplement of up to 20% of salary. Legacy arrangements for some Directors mean that a fixed amount is paid in addition to the 20% contribution. The continuation of these arrangements for existing employees means that their maximum pension will be up to 21%.	None
Annual bonus	To incentivise the annual delivery of stretching financial targets and personal performance goals. Financial performance measures reflect KPIs of the business.	Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% are deferred into shares of which 50% is released after 12 months and the balance after 24 months. These deferred shares are potentially forfeitable if the executive leaves prior to the share release date. The bonus is not pensionable. Clawback provisions apply in the event of misstatement or misconduct.	Maximum bonus potential, for the achievement of stretching performance conditions is 150% of salary for all Directors.	Annual bonuses are earned based on performance measured against the following metrics: ■ Total return against other major real estate companies (up to 50% of the maximum bonus opportunity); ■ Total property return versus the IPD Central London Offices Total Return Index (up to 25% of the maximum bonus opportunity); and ■ Performance objectives tailored to the delivery of the Group's short-term strategy (up to 25% of the maximum bonus opportunity). Only 22.5% of the relevant bonus element will be payable for threshold performance against the financial measures (i.e. total return and total property return), rising to full payout for achieving challenging outperformance targets. The performance condition described above will be reviewed annually by the Committee (in terms of the companies against which relative total return performance is measured, the choice of IPD Index relating to total property return and the metrics and weightings applied to each element of bonus). Any revisions to the above structure would only take place should it be considered necessary in light of developments in the Company's strategy to ensure that the annual bonus remained aligned with the Company's strategy and KPIs. In any event, a substantial majority of bonus would be expected to remain subject to financial targets with a minority based on performance against performance objectives linked to the delivery of the Group's short-term strategy. Details of the bonus structure operating each year will be provided in the relevant annual report on remuneration.

Executive Director policy table (continued)

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Long-term incentive plan	To align the long-term interests of the Directors with those of the Group's shareholders. To incentivise value creation over the long-term. To aid retention.	The Committee makes a conditional award of nil-cost options each year. Vesting is determined by the Group's achievements against stretching performance targets over the three subsequent years and continued employment. The Group's performance against the targets is independently verified on behalf of the Committee. A further holding period of two years is required on the after tax number of vested shares. Dividends may be payable on vested shares. Clawback provisions apply in the event of misstatement or misconduct. Awards will be satisfied by either newly issued shares or shares purchased in the market. Any use of newly issued shares will be limited to corporate governance compliant dilution limits contained in the scheme rules.	Annual award limit: up to 200% of salary.	Long-term incentive awards vest based on three-year performance against a challenging range of total property return (50% of an award) and, separately, relative total shareholder return (50% of an award) performance targets. Total property return performance is measured relative to the IPD Central London Offices Index and total shareholder return performance is measured against a bespoke comparator group of real estate companies. 22.5% of each part of an award vests for achieving the threshold performance level with full vesting for achieving challenging outperformance targets for total property return (based on a prescribed out-performance premium of the IPD Central London Offices Index) or the upper quartile rank for total shareholder return. No awards vest for below threshold performance levels. The Committee will have discretion to reduce the extent of vesting in the event that it considers that performance against the relevant measure of performance (whether total shareholder return or total property return growth) is inconsistent with underlying financial performance. The performance condition described above will be reviewed annually by the Committee (in terms of the companies against which relative total return performance is measured, the choice of IPD Index relating to total property return and the metrics and weightings applied to each part of an award). Any revisions to the metrics and/or weightings would only take place should it be considered necessary in light of developments in the Company's strategy and following appropriate dialogue with the Company's major shareholders. Should a substantial reworking of the current approach be considered appropriate (e.g. replacing one of the current metrics with an alternative), this would only take place following a revised Directors' remuneration policy being tabled to shareholders.
Share ownership guidelines	To provide alignment between executives and shareholders.	Executive Directors are required to retain at least half of any shares vesting (net of tax) until the guideline is met.	John Burns – 200% of salary. Other executive Directors – 125% of salary. Non-executive Directors – No guideline.	None

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Non-executive Directors' fees	To help recruit and retain, high calibre non-executives with relevant skills and experience. Reflects time commitments and scope of responsibility.	The remuneration for the Chairman is set by the full Board. The remuneration for non-executive Directors, is also set by the whole Board. Periodic fee reviews will set a base fee and, where relevant, fees for additional services such as chairing a Board Committee. The review will consider the expected time commitments and scope of responsibilities for each role as well as market levels in companies of comparable size and complexity.	The current non-executives' fees (and benefits where applicable) may be increased at higher rates than the wider workforce given that fees may only be reviewed periodically and to ensure that any changes in time commitment are appropriately recognised in the fee levels set.	None

Operation of the annual bonus plan and LTIP policy

The Committee will operate the annual bonus plan and LTIP in accordance with their respective rules and in accordance with the Listing Rules of the FCA where relevant. As part of the rules the Committee holds certain discretions which, are required for an efficient operation and administration of these plans, and are consistent with standard market practice. These include the following discretions:

- Participants of the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table above);
- The determination of vesting;
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group;
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- The annual review of performance conditions for the annual bonus plan and Performance Share Plan from year to year.

If certain events occur (e.g. a material divestment or acquisition of a Group business), which mean the original performance conditions are no longer appropriate the Committee retains the ability to make adjustments to the targets and/or set different measures and alter weightings as necessary to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.

The outstanding share incentive awards which are detailed in tables 2 and 4 on pages 105 and 107 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in the prior year's report of the Remuneration Committee will remain eligible to vest or become payable on their original terms.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long-term incentive plans are aligned to the Company's KPIs.

For the annual bonus a combination of sector specific financial performance measures are used. These are measured on a relative basis against sector peers and industry benchmarks such as IPD. The precise measures, targets and weightings chosen may vary, depending on the Company's strategy. Other objectives are set on an annual basis for each Director, directly linked to their role and responsibilities and the overall strategic focus at that time.

When compared to sector peers, targets are set in a range which is based on median performance delivering threshold payout, rising to full payout for performance at least equal to upper quartile. When compared to an industry benchmarking, equalling the index will deliver a threshold payout rising to full payout for substantial outperformance of the index. Only a minority of the bonus element will be paid for achieving threshold targets.

Long-term performance targets are set based on a combination of relative performance measures. Relative TSR is currently used as it provides a clear alignment between shareholders and executives. Other relative measures such as TPR against a relevant industry benchmark promotes the aim to maximise returns from the investment portfolio. Measuring Derwent's TPR against the TPR of the IPD Central London Offices Index ensures the Group's performance is being assessed on a consistent basis. As with annual bonus measures, the target range when compared to sector peers, is based on a market standard median to upper quartile ranking approach. When compared to an industry benchmarking, equalling the index will deliver a threshold payout rising to full payout for outperformance of the index. Only 22.5% of any long-term incentive will vest for achieving threshold targets.

How the pay of employees is taken into account and how it compares to executive Director remuneration policy
While the Company does not formally consult employees on remuneration, in determining the remuneration policy for executive Directors, the Committee takes account of the policy for employees across the workforce. In particular when setting base salaries for executives the Committee compares the salary increases with those for the workforce as a whole.

The overall remuneration policy for executive Directors is broadly consistent with the remainder of the workforce. However, whilst executive remuneration is weighted towards performance-related pay, the Company is introducing both option and bonus schemes to more employees (albeit at lower quantum and subject to performance criteria more appropriate for their role) which are similar to those of the Directors.

How the views of shareholders are taken into account
The Committee actively seeks dialogue with shareholders and values their input in helping to formulate the Company's remuneration policy. Any feedback received from shareholders is considered as part of the Committee's annual review of remuneration policy. The Committee will also discuss voting outcomes at the relevant Committee meeting and will consult with shareholders when making any significant changes to the remuneration policy.

Service contracts and compensation for loss of office
As part of the major review of the Directors' remuneration structure undertaken last year, all the executive Directors entered into new service contracts dated 16 May 2014. These include a payment in lieu of notice clause which provides for monthly phased payments throughout the notice period which include pro-rated salary, benefits and pension only and are subject to mitigation. The new service contracts have no change of control provisions and all other elements have been brought up to date in line with best practice.

Other than in the event of certain 'good leaver' events (such as redundancy or retirement), no bonus will be payable unless the individual remains employed and is not under notice at the payment date. With regards to LTIP awards, if a participant resigns voluntarily, the award lapses. The 2004 PSP rules provide standard 'good leaver' definitions for death, retirement, injury, ill-health, disability, redundancy or transfer of employment outside the Group, or any other reason at the Committee's discretion, whereby awards will vest at their original vesting date subject to performance criteria being achieved and time pro-rating (rounded up to the next completed service year for awards granted before 1 January 2013) to reduce vested awards for time served in the relevant period.

The 2014 LTIP includes a similar definition of a 'good leaver' as detailed above for the 2004 PSP. The extent of vesting for a good leaver under the 2014 LTIP will depend upon the extent to which the performance conditions have, in the opinion of the Committee, been satisfied over the original three-year performance measurement period and pro rating of the award to reflect the reduced period of time between its grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances. Alternatively, for a 'good leaver', the Committee can decide that his award will vest when he leaves subject to the performance conditions measured at that time and the same pro-rating described above. Such treatment will apply in the case of death.

In the event of a change of control, the treatment detailed above for good leavers under the 2004 PSP and 2014 LTIP would apply albeit with performance tested over the shortened performance period.

Chairman and non-executive Directors
Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes although the Chairman held options granted under the historic LMS Executive Share Option Scheme, details of which are given in table 4 on page 107.

The non-executive Directors do not have service contracts and are appointed for three year terms which expire as follows: Stuart Corbyn, 23 May 2015; June de Moller, 31 January 2016; Stephen Young, 31 July 2016; Robert Farnes, 15 May 2015, Simon Fraser, 31 August 2015 and Richard Dakin 31 July 2016. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31 January 2016. In addition to his fee as Chairman, it provides for a car, driver and secretary, together with a contribution to his office running costs. His letter of appointment also contains provisions relating to payment in lieu of notice.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Recruitment and promotion policy
When facilitating an external recruitment or an internal promotion the Committee will apply the following principles:

Remuneration Element	Policy
Base salary	Base salary levels will be set taking into account the individual's experience and skills, prevailing market rates in companies of comparable size and complexity and internal relativities. Where appropriate the Committee may set the initial salary below this level (e.g. if the individual has limited PLC Board experience or is new to the role), with the intention to make phased pay increases over a number of years, which may be above those of the wider workforce, to achieve the desired market positioning. These increases will be subject to continued development in the role.
Benefits	Benefits as provided to current executive Directors. The Committee may pay relevant relocation and legal expenses in order to facilitate a recruitment.
Pension	A defined contribution or cash supplement at the level provided to current executive Directors.
Annual bonus	The Committee would intend to operate the same annual bonus plan for all Directors, including the same maximum opportunity at 150% of salary, albeit pro-rated for the period of employment. However, depending on the nature and timing of an appointment, the Committee reserves the right to set different performance measures, targets and weightings for the first bonus plan year if considered necessary. Any bonus criteria in such circumstances would be disclosed in the following year's annual report on remuneration.
Long-term incentives	LTIP awards would be granted in line with the policy set out in the policy table, with the possibility of an award being made after an appointment. The maximum ongoing annual award would be limited to that of the current Chief Executive Officer. For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant.
Buy-out awards	Should it be the case that the Remuneration Committee considered it necessary to buyout incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, would be structured so that the terms of the buy-out mirrored the form and structure of the remuneration being replaced (e.g. vested share awards may be replaced with shares in Derwent London while recently granted long-term incentive awards may be replaced with a performance related LTIP award). Where possible this will be accommodated under the Company's existing incentive plans, but it may be necessary to utilise the exemption under rule 9.4.2 of the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.

External appointments
Executive Directors may accept a non-executive role at another company with the approval of the Board. The executive is entitled to retain any fees paid for these services.

Annual report on remuneration

Remuneration Committee

The Remuneration Committee (the 'Committee') consisted of Simon Fraser (Chairman), Stuart Corbyn, June de Moller and Stephen Young. None of the members who have served during the year had any personal interest in the matters decided by the Committee, or any day-to-day involvement in the running of the business and, therefore, are considered to be independent. The full terms of reference of the Committee are available on the Company's website.

New Bridge Street (NBS) – a trading name of Aon plc – was retained to provide independent assistance to the Committee regarding the setting of salaries and the operation of the PSP and bonus scheme. In particular, NBS provides an independent assessment of outcomes under the bonus scheme and the extent of vesting of the conditional share awards and ensures that the measures used for both schemes are comparable and consistent. The fees paid to NBS for these services, based on hourly rates, amount to £68,534. NBS did not provide any other services to the Group during the year and the Committee is satisfied that the advice provided by NBS is independent and objective.

No Director had any involvement in determining his own remuneration although some of the matters considered by the Committee, other than his own salary, were discussed with John Burns. The Company Secretary acted as secretary to the Committee.

Application of policy for 2015

Base salaries

The base salaries that are applicable from 1 January 2015, after allowing for a 3% increase are as follows:

- John Burns – £619,500
- Simon Silver – £531,500
- Damian Wisniewski – £394,500
- Paul Williams – £394,500
- Nigel George – £394,500
- David Silverman – £394,500

The salary increases of 3% are below those offered to the wider workforce.

Benefits and pension

Benefits will continue to include a car and fuel allowance, private medical insurance and life insurance. Pension benefits are provided by way of a Company contribution at up to 21% of salary for all executive Directors.

Annual bonus

The bonus will operate subject to the following metrics with a bonus potential of 150% for all executive Directors:

- 50% of bonus will be earned based on Derwent London's total return against other major real estate companies;
- 25% of bonus will be earned based on Derwent London's TPR versus the IPD Central London Offices Total Return Index; and
- 25% of bonus will be earned subject to other performance objectives tailored to the delivery of the Group's short-term strategy.

For achieving the threshold performance target (i.e. at the IPD Index or median total return against our sector peers), 22.5% of the maximum bonus opportunity will become payable.

Total return pay-out accrues on a straight line basis between the threshold level for median performance and maximum payment for upper quartile performance. For TPR, the payout schedule starts to earn at Index, rising to Index +2.5% (for 75% of maximum) and then Index +5% for maximum.

Bonuses earned above 100% of salary will be subject to deferral into the Company's shares with half of the deferred element released on the 1st anniversary of the deferral and the remaining half released on the 2nd anniversary.

The cash and deferred elements of bonuses are subject to provisions that enable the Committee to recover the cash paid (clawback) or to lapse the associated deferred shares (withhold payments) in the event of a misstatement of results for the financial year to which the bonus relates or for gross misconduct within two years of the payment of the cash bonus.

Long-term incentives

It is proposed that long-term incentive awards in 2015 will be granted at 200% of salary to all executive Directors.

Half of an award vests according to the Group's relative TSR performance versus real estate comparators with the following vesting profile:

TSR Performance of the Company relative to real estate sector peers tested over three years	Vesting (% of TSR part of award)
Below median	0
At median	22.5
Upper quartile	100
Straight-line vesting occurs between these points	

The peer companies are:

- Big Yellow Group plc
- The British Land Company plc
- Capital & Regional plc
- Capital & Counties Properties plc
- Great Portland Estates plc
- Hammerson plc
- Intu Properties plc
- Land Securities plc
- Quintain Estates and Development plc
- St Modwen Properties plc
- Segro plc
- Shaftesbury plc
- Workspace Group plc

The other half of an award vests according to the Group's relative TPR versus the constituents of the IPD Central London Offices Total Return Index with the following vesting profile:

Derwent London's Annualised TPR versus the IPD Central London Offices Total Return Index tested over three years	Vesting (% of TPR part of award)
Below median	0
At median	22.5
Median +2.5%	75
Median +5%	100
Straight-line vesting occurs between these points	

Performance periods will run over three financial years. For awards granted in 2014 and beyond, as a minimum, the after-tax number of vested shares must be retained for a minimum holding period of two years. This five-year aggregate period is considered appropriate for a Company focused on aligning executives with shareholders over the long-term.

Awards granted under the Company's 2014 LTIP include provisions that enable the Committee to recover value in the event of a misstatement of results for the financial year to which the vesting of an award related, or an error in calculation when determining the vesting result, or as a result of misconduct which results in the individual ceasing to be

a Director or employee of the Group within two years of the vesting (i.e. clawback provisions apply). The mechanism through which the clawback can be implemented enables the Committee to (i) reduce the cash bonus earned in a subsequent year and/or reduce outstanding discretionary long-term incentive share awards (i.e. withholding amounts to become payable may be used to effect a clawback) or (ii) for the Committee to require that a net of tax balancing cash payment be made. Similar provisions applied under the Company's 2004 PSP in the event of a misstatement of the Company's results.

Non-executive Director fees

The fees effective from 1 January 2015 are Chairman £150,000 (additional benefits are provided as detailed on page 99), base fee £42,500, Committee Chairman fee £7,500, Senior Independent Director fee £5,300, Committee fee £4,000.

Directors' remuneration summary

Details of Directors' remuneration are given in table 1 below:

Table 1

				Bonus				
2014	**Salary and fees £'000**	**Benefits in kind £'000**	**Pension and life assurance £'000**	**Cash £'000**	**Deferred £'000**	**Sub total £'000**	**Gains from equity-settled schemes[1] £'000**	**Total £'000**
Executive								
J.D. Burns	602	53	139	602	234	1,630	840	2,470
S.P. Silver	516	37	131	516	201	1,401	720	2,121
D.M.A. Wisniewski	383	21	85	383	149	1,021	458	1,479
N.Q. George	383	18	90	383	149	1,023	458	1,481
P.M. Williams	383	21	89	383	149	1,025	458	1,483
D.G. Silverman	383	20	85	383	149	1,020	425	1,445
Non-executive								
R.A. Rayne	150	31	–	–	–	181	1,196	1,377
R.A. Farnes	44	–	–	–	–	44	–	44
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	47	–	–	–	–	47	–	47
S.G. Young	53	–	–	–	–	53	–	53
S.W.D. Fraser	57	–	–	–	–	57	–	57
R.D.C. Dakin	45	–	–	–	–	45	–	45
	3,108	**201**	**619**	**2,650**	**1,031**	**7,609**	**4,555**	**12,164**

[1] The gains from equity-settled shares are in respect of the 2012 award which will vest in April 2015 and for which the performance conditions were complete or substantially complete at 31 December 2014. The value is based on an estimate of expected vesting and the average share price over the last three months of 2014.

				Bonus				
2013	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Cash £'000	Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	584	51	126	584	248	1,593	885	2,478
S.P. Silver	501	35	121	501	213	1,371	760	2,131
D.M.A. Wisniewski	372	20	83	372	93	940	469	1,409
N.Q. George	372	16	88	372	70	918	483	1,401
P.M. Williams	372	20	86	372	93	943	483	1,426
D.G. Silverman	357	19	80	357	67	880	413	1,293
Non-executive								
R.A. Rayne	150	30	–	–	–	180	322	502
J.C. Ivey[2]	58	–	–	–	–	58	–	58
R.A. Farnes	49	–	–	–	–	49	–	49
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	53	–	–	–	–	53	–	53
S.G. Young	55	–	–	–	–	55	–	55
S.W.D. Fraser	52	–	–	–	–	52	–	52
R.D.C. Dakin[3]	18	–	–	–	–	18	–	18
	3,055	191	584	2,558	784	7,172	3,815	10,987

[1] The value of gains from equity settled schemes presented in last year's report was based on an estimate of vesting and the share price on 25 February 2014. The value has been restated in this year's report to reflect the actual number of awards which vested and the share price on the date the awards were transferred to participants.

[2] John Ivey retired from the Board on 31 December 2013.

[3] Richard Dakin joined the Board in August 2013.

No payments were made to past Directors or in respect of loss of office during 2014 or 2013.

Benefits

Taxable benefits relates to car and fuel allowance as well as private medical insurance and life assurance.

Determination of 2014 annual bonus outcome

Provision has been made for a bonus for 2014 of 92.6% (2013: between 95% and 100%) of the maximum potential. This has been derived as follows:

Performance Measure	Weighting % of bonus	Basis of calculation	Threshold %	Maximum %	Actual %	Payable %
Total return	50.0	Total return of major real estate companies	21.0	27.1	30.1	50.0
Total property return	25.0	Relative to IPD Central London Offices Total Return Index	22.0	27.0	25.1	20.1

In addition to the above formulaic result, 25% of the annual bonus is measured against performance objectives. The factors considered by the Committee are as follows:

- The financing structure of the Group
  Measures used to assess performance in this area include the interest cover ratio KPI and two of the Group's key metrics – Gearing and available resources.
- Rent collection and the level of arrears
  Tenant receipts is one of the Group's KPIs.
- Delivery of projects both in terms of timing and costs
  This is a key driver to the Group's total property return KPI and is monitored through regular progress reports to the Board and post completion reviews.
- Health and safety performance
  Both the Board and the Executive Committee receive regular health and safety reports and zero RIDDORS is one of the Group's CSR targets.
- Void management and letting performance
  Management of void space is one of the Group's KPIs and the Board receives regular reports on both these objectives.
- Staff retention
  This is considered a good proxy for staff welfare.
- Governance
  The Board aims to maintain a high level of governance as it considers this to be a key element in running a successful and sustainable business.
- Reputation
  The Board considers this to be a major asset of the Company and the risk of damage to the Group's reputation is one of the major risks identified on pages 22 to 27.
- Design
  This is key to maintaining and developing the Group's brand.

The total bonus estimated for each executive is therefore:

	Bonus payable			Deferred bonus	
	% of maximum	% of salary	Cash bonus payable	£	% of salary
J.D. Burns	92.6	139	601,500	234,164	39
S.P. Silver	92.6	139	516,000	200,879	39
D.M.A. Wisniewski	92.6	139	383,000	149,102	39
N.Q. George	92.6	139	383,000	149,102	39
P.M. Williams	92.6	139	383,000	149,102	39
D.G. Silverman	92.6	139	383,000	149,102	39

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Long-term incentive plan

Half the awards granted in 2012 under the 2004 Performance Share Plan (PSP) were subject to a relative TSR performance measure and half subject to a growth in the net asset value measure. The performance condition was complete or substantially complete at the year end and the Committee made the following assessment of vesting:

Performance Measure	Weighting % of award	Basis of calculation	Threshold %	Maximum %	Actual %	% vesting/ estimated vesting
Growth in NAV	50	Relative to IPD Central London Offices Total Return Index	53.4	68.4	71.0	50
Total shareholder return	50	TSR of major real estate companies	102.8	135.9	95.3	0

As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the Committee concluded that, for the parts of the 2012 awards with measurement periods ending in 2014, this was the case.

Therefore, the vesting for each executive is estimated to be:

Executive	Number of awards vesting	Value of award on vesting[1] £
J.D. Burns	28,860	839,826
S.P. Silver	24,738	719,816
D.M.A. Wisniewski	15,750	458,325
N.Q. George	15,750	458,325
P.M. Williams	15,750	458,325
D.G. Silverman	14,615	425,297

[1] Based on the average share price over the last three months of the financial year of £29.10 and the estimated vesting percentage of 50%.

On 29 May 2014 the Committee made a LTIP award under the Group's 2014 LTIP to executive Directors on the following basis:

	Type of award	Basis of award granted % of salary	Share price at date of grant £	Number of shares awarded	Face value of award £	% of face value which vests at threshold
J.D. Burns	Nil-cost option	200	27.12	44,355	1,202,908	22.5%
S.P. Silver	Nil-cost option	200	27.12	38,050	1,031,916	22.5%
D.M.A. Wisniewski	Nil-cost option	200	27.12	28,245	766,004	22.5%
N.Q. George	Nil-cost option	200	27.12	28,245	766,004	22.5%
P.M. Williams	Nil-cost option	200	27.12	28,245	766,004	22.5%
D.G. Silverman	Nil-cost option	200	27.12	28,245	766,004	22.5%

If threshold performance is not achieved over the three-year period from 1 January 2014 to 31 December 2016, none of the award will vest. The performance conditions are described in more detail on page 101.

The outstanding LTIP awards held by Directors are set out in the table below:

Table 2

Market price at award date £	Earliest vesting date	J.D. Burns	S.P. Silver	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
13.66	01/04/13	67,250	57,650	36,780	36,780	30,190	34,590	14,640	277,880
16.43	01/04/14	58,550	50,250	31,950	31,950	27,350	31,000	12,750	243,800
17.19	12/04/15	57,720	49,475	31,500	31,500	29,230	31,500	12,620	243,545
Interest as at 1 January 2013		183,520	157,375	100,230	100,230	86,700	97,090	40,010	765,225
Shares conditionally awarded on 8 April 2013:									
Market price at award date £	Earliest vesting date								
21.2	08/04/16	48,200	41,350	26,320	26,320	25,250	26,320	10,560	204,320
Shares vested or lapsed during the year:									
Market price at award date £	Market price at date of vesting £								
13.66	22.44	(56,369)	(48,322)	(30,829)	(30,829)	(25,305)	(28,993)	(12,271)	(232,918)
13.66	Lapsed	(10,881)	(9,328)	(5,951)	(5,951)	(4,885)	(5,597)	(2,369)	(44,962)
Interest as at 31 December 2013		164,470	141,075	89,770	89,770	81,830	88,820	35,930	691,665
Shares conditionally awarded on 29 May 2014:									
Market price at award date £	Earliest vesting date								
27.12	29/05/17	44,355	38,050	28,245	28,245	28,245	28,245	12,745	208,130
Shares vested or lapsed during the year:									
Market price at award date £	Market price at date of vesting £								
16.43	27.26	(32,325)	(27,743)	(17,640)	(17,640)	(15,100)	(17,115)	(7,039)	(134,602)
16.43	28.15	(134)	(115)	(73)	(73)	(62)	(71)	(29)	(557)
16.43	Lapsed	(26,091)	(22,392)	(14,237)	(14,237)	(12,188)	(13,814)	(5,682)	(108,641)
Interest as at 31 December 2014		**150,275**	**128,875**	**86,065**	**86,065**	**82,725**	**86,065**	**35,925**	**655,995**

	31 December 2014	31 December 2013	1 January 2013
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.26 years	1.21 years	1.21 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2014 was £nil (2013: £nil). The weighted average market price of awards vesting in 2014 was £27.26 (2013: £22.44).

Awards made in 2013 and previous years were made under the Group's 2004 PSP whilst those made in 2014 were made under the 2014 LTIP.

For awards granted under either the 2004 PSP or the 2014 LTIP:

- half of the shares vest based on TSR performance relative to a comparator group of companies; and
- half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2014 comprises the following – Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties Limited, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. Under the 2004 PSP 25% of awards subject to the TSR target vest for median performance over the three-year performance period increasing to full vesting for upper quartile performance. Median performance under the 2014 LTIP results in 22.5% of the award subject to the TSR target test vesting with full vesting still requiring upper quartile performance.

For the 2004 PSP if the Group's NAV performance matches that of the median performing property in the Index over the three-year performance period 25% of awards subject to the NAV target vest. Vesting increases on a sliding scale to full vesting for out-performing the median performing property by 5% per annum. Under the 2014 LTIP median performance results in 22.5% of the award subject to the NAV target vesting. This increases to 75% vesting for outperforming the median by 2.5% per annum with full vesting being achieved for 5% per annum outperformance of the median.

The Committee has discretion to reduce the extent of vesting in the event that it feels that performance against either measure of performance is inconsistent with underlying financial performance.

For awards granted under the 2014 LTIP in 2014 and beyond, as a minimum, the after tax number of vested shares must be retained for a minimum holding period of two years.

Share option schemes

Details of the options held by Directors and employees under the Group's 1997 Executive Share Option Scheme at 31 December 2014 are given in table 3 below. Disclosure relating to a further share option scheme in which the Directors do not participate is given in note 13 on page 134.

Table 3

Exercise price £	Date from which exercisable	Expiry date	Employees	Total
13.63	08/06/09	07/06/16	4,500	4,500
Outstanding at 1 January 2013			4,500	4,500
No options were granted or lapsed in 2013				
Options exercised during 2013				
Exercise Price £	**Market price at date of exercise £**			
13.63	24.89		(4,500)	(4,500)
Outstanding at 31 December 2013			–	–
No options were granted, lapsed or exercised in 2014				
Outstanding at 31 December 2014			**–**	**–**

The weighted average exercise price of options exercised in 2014 was £nil (2013: £13.63) and the weighted average market price at the date of exercise £nil (2013: £24.89).

	31 December 2014	31 December 2013	31 December 2012
Number of exercisable share options:	–	–	4,500
Weighted average exercise price of exercisable share options:	–	–	£13.63
Weighted average remaining contracted life of exercisable share options:	–	–	3.44 years

There were no non-exercisable share options at any of the year ends shown.

The exercise of options granted under the 1997 Executive Share Option Scheme was subject to three-year performance criteria. This states that a year's options can only be exercised once the growth of the Group's net asset value per share over a subsequent three-year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more.

Following the acquisition of London Merchant Securities plc (LMS) in 2007, options that had already vested under the LMS Executive Share Option Scheme were converted to options over Derwent London shares. Details of these options, all of which are exercisable, are given in table 4 below:

Table 4

Exercise price £	Expiry date	R.A. Rayne
9.92	01/09/14	50,274
12.03	28/06/15	41,456
Outstanding at 1 January 2013		91,730
No options were granted or lapsed in 2013		
Options exercised during 2013		
Exercise price £	**Market price at date of exercise £**	
9.92	22.81	(25,000)
Outstanding at 31 December 2013		66,730
No options were granted or lapsed in 2014		
Options exercised during 2014		
Exercise price £	**Market price at date of exercise £**	
9.92	27.99	(25,274)
12.03	29.52	(20,000)
12.03	29.99	(10,000)
12.03	30.38	(11,456)
		(66,730)
Outstanding at 31 December 2014		**–**

R.A. Rayne made a gain of £1,196,000 (2013: £322,000) on options exercised during the year.

The weighted average exercise price of options exercised during 2014 was £11.23 (2013: £9.92) and the weighted average market price at the date of exercise £29.16 (2013: £22.81).

In respect of the options outstanding at 31 December 2014 in table 4 the weighted average exercise price is £nil (2013: £11.23) and the weighted average remaining contracted life is zero years (2013: 1.2 years).

The market price of the 5p ordinary shares at 31 December 2014 was £30.18 (2013: £21.60). During the year, they traded in a range between £24.58 and 30.73 (2013: £21.20 and £25.74).

Deferred bonus shares

Details of the deferred bonus shares held by the Directors are given in table 5.

Table 5

		J.D. Burns	S.P. Silver	D.M.A. Wisniewski	P.M. Williams	N.Q. George	D.G. Silverman	Total
Interest at 1 January 2013		16,023	13,745	3,262	3,465	3,465	2,935	42,895
Deferred in 2013								
Date of deferment	Value per share on deferment £							
25/03/13	21.40	7,449	6,385	1,141	1,141	1,141	1,059	18,316
Vested in 2013								
Date of vesting	Value per share on vesting £							
04/04/13	21.50	(4,941)	(4,235)	(815)	(946)	(946)	(776)	(12,659)
04/04/13	21.50	(5,541)	(4,755)	(1,223)	(1,259)	(1,259)	(1,079)	(15,116)
Interest at 31 December 2013		12,990	11,140	2,365	2,401	2,401	2,139	33,436
Deferred in 2014								
Date of deferment	Value per share on deferment £							
25/03/14	26.97	9,203	7,895	3,448	3,448	2,586	2,482	29,062
Vested in 2014								
Date of vesting	Value per share on vesting £							
02/04/14	27.34	(5,541)	(4,755)	(1,224)	(1,260)	(1,260)	(1,080)	(15,120)
02/04/14	27.34	(3,724)	(3,192)	(570)	(570)	(570)	(529)	(9,155)
Interest at 31 December 2014		12,928	11,088	4,019	4,019	3,157	3,012	38,223

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are given in table 6.

Table 6

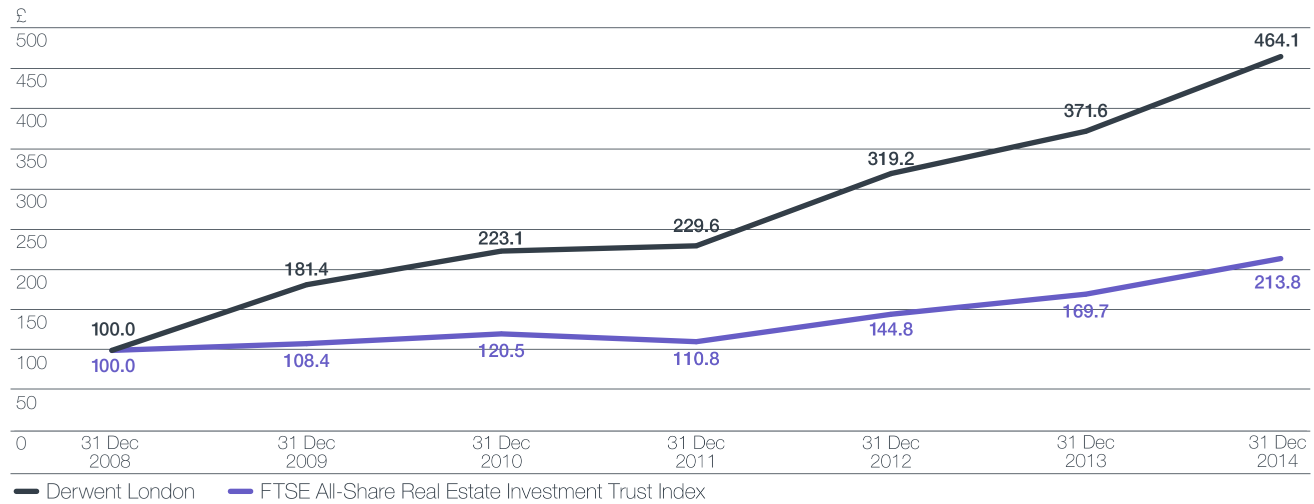
	£'000			Number of shares			
	2015 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	Total
J.D. Burns	619	1,238	24,406	738,244	12,928	150,275	**901,447**
S.P. Silver	531	664	9,748	294,887	11,088	128,875	**434,850**
D.M.A. Wisniewski	394	493	720	21,781	4,019	86,065	**111,865**
P.M. Williams	394	493	1,473	44,551	4,019	86,065	**134,635**
N.Q. George	394	493	1,572	47,550	3,157	86,065	**136,772**
D.G. Silverman	394	493	544	16,469	3,012	82,725	**102,206**

[1] Valued at £33.06, the value of a 5p ordinary share in the Company on 24 February 2015.

Details of non-executive Directors shareholdings are given on page 86.

Performance graph

Total shareholder return compared to the FTSE All-Share Real Estate Investment Trusts Index.



Source: Thomson Reuters

This graph shows the value, by 31 December 2014, of £100 invested in Derwent London on 31 December 2008 compared to that of £100 invested in the FTSE All-Share Real Estate Investment Trusts Index. The other points plotted are the values at intervening financial year ends.

This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose. To produce a 'fair value', each point is a 30-day average of the return.

Remuneration of the Chief Executive Officer 2008 – 2014

Year Ending	Executive	Total remuneration £'000	Annual bonus (% of max)	LTIP vesting (% of max)
31/12/14	J.D. Burns	2,470	92.6%	50.0%[1]
31/12/13	J.D. Burns	2,478	95.0%	55.2%
31/12/12	J.D. Burns	2,721	85.4%	83.8%
31/12/11	J.D. Burns	2,387	90.0%	50.0%
31/12/10	J.D. Burns	2,304	87.5%	50.0%
31/12/09	J.D. Burns	1,384	62.5%	47.6%
31/12/08	J.D. Burns	956	25.6%	36.5%

[1] Estimate

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Percentage increase in the remuneration of the Chief Executive Officer

	2014	2013	% change
Chief Executive (£'000)			
Salary	**601.5**	584.0	3.00
Benefits	**192.2**	176.9	8.65
Bonus	**835.7**	832.2	0.40
Average employee (£'000)			
Salary	**63.3**	55.2	14.67
Benefits	**10.5**	10.4	0.96
Bonus	**18.0**	17.1	5.26

The table above shows the movement in the salary, benefits and annual bonus for the Chief Executive Officer between the current and previous financial year compared to that for an average employee.

Relative importance of the spend on pay

	2014	2013	% change
Staff costs (£m)	**22.4**	21.3	5.2
Distributions to shareholders (£m)	**38.4**	35.2	9.1
Net asset value[1] (£m)	**3,012**	2,304	30.7

[1] The net asset value of the Group is shown for both years as it is the primary measure by which investors measure the success of the Group.

Statement of shareholder voting

At the Company's 2014 AGM, the report of the Remuneration Committee received the following votes from shareholders:

2014 AGM	Annual report on remuneration m	Annual report on remuneration %	Directors' remuneration policy m	Directors' remuneration policy %
Votes cast in favour	**83.1**	**98.1**	**85.2**	**99.5**
Votes cast against	**1.6**	**1.9**	**0.4**	**0.5**
Total votes cast	**84.7**	**–**	**85.6**	**–**
Votes withheld	**1.7**	**–**	**0.8**	**–**

The disclosure on Directors' remuneration in tables 1 to 6 on pages 102 to 108 has been audited as required by the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

STUART CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Nominations Committee for 2014.

One of the main responsibilities of the Committee is to manage the ongoing refreshment of the Board whilst maintaining the necessary degree of stability and an appropriate composition throughout.

During the year, the business community has focussed on the importance of a company having an effective succession plan in place and the role of the Nominations Committee in developing such a plan. The Committee considers the question of succession at least once a year paying particular attention to the skills and experience required in future non-executive Directors given the retirements envisaged by the refreshment process.

This year we have been planning for the retirement of Robert Farnes who will be retiring after the AGM in May having served on the Board for in excess of nine years. I referred to the recruitment of his replacement in last year's report and stated the Board's aim to appoint at least one additional female Director by 2015. The recruitment process is again being led by Spencer Stuart, who were selected after a number of executive search agencies were interviewed, and they were instructed to provide a list of high-calibre candidates which took account of this objective. The recruitment process is entering its later stages and I look forward to announcing the result by the time of the AGM.

STUART A. CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

26 FEBRUARY 2015

REPORT OF THE NOMINATIONS COMMITTEE

At the start of the year the Committee consisted of Robert Farnes, June de Moller and Simon Fraser under the chairmanship of Stuart Corbyn. Richard Dakin joined the Committee in July 2014 and Robert Farnes stepped down at the end of the year. All members are considered independent by the Company having no day-to-day involvement with the Company.

Roles and responsibilities

The terms of reference for the Committee are available on the Company's website.

Meetings

The Committee meets at least once a year to arrange for the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's responsibilities in connection with identifying and nominating new Board members. The Committee met four times in 2014.

Work of the Committee

During the year the Committee has carried out the following tasks:

- Led the annual appraisal of the Board, its Committees and the Chairman. The appraisal was carried out by Lintstock, an independent corporate advisory firm which provides no other services to the Group.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Initiated the recruitment process for a non-executive Director having regard to the skills and experience required of a new non-executive Director.
- Ensured that the appointed executive search agency, Spencer Stuart, was independent and had no other connections with the Group.
- Identified areas of experience that a new non-executive Director should possess in order to further strengthen the Board.
- Considered whether the Committee's recruitment procedure was adequate given the gender diversity matters raised by Lord Davies.
- Reviewed the terms of reference for the Committee.

STUART A. CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

RICHARD DAKIN
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder,

I am pleased to present this year's report of the Risk Committee having taken over as Chairman of the Committee from June de Moller in August 2014.

Whilst market conditions generally have remained strong throughout the year, our increased activity, putting greater emphasis on appropriate internal controls, and other emerging external risks have all served to keep the overall risk profile elevated. Given the political landscape both in the UK with the general election and in Europe where renewed uncertainty over the stability of the Eurozone remains, we would expect limited change to this heightened risk profile in the coming year.

During the year the Committee continued to draw on the recommendations in last year's review of the Group's risk assessment process. One of these was to formalise the assessment process and this resulted in the Committee overseeing the preparation of documents which set out the Group's risk appetite and its risk management policy and process. These were subsequently adopted by the Board.

One of the changes introduced in the latest update of the UK Corporate Governance Code is focused on risk management and internal control. This, together with the publication of the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting demonstrates the increased attention being given by investors to companies' risk management processes and reporting. In the light of this, we reviewed the Committee's procedures to ensure that the Group continues to comply with the guidance where applicable and the requirements of the UK corporate Governance Code.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

26 FEBRUARY 2015

REPORT OF THE RISK COMMITTEE

Throughout the year the Committee was served by Stephen Young, John Burns and Damian Wisniewski under the chairmanship of June de Moller until August 2014 when Richard Dakin took over the chair.

Rules and responsibilities
The Committee's terms of reference are available on the Company's website.

Meetings
Three meetings are scheduled for the year with extra meetings convened if necessary for the Committee to discharge its duties.

Work of the Committee
During the year the Committee undertook the following tasks:

- Reviewed the Group's risk register.
- Approved the Group's risk appetite statement, risk management policy and risk management process prior to their consideration and adoption by the Board.
- Received presentations from senior management concerning the controls over certain parts of the business or specific risks.
- Considered the operation of the Group's risk management process and non-financial internal controls.
- Facilitated an online training course for all employees to increase staff awareness of cybercrime.
- Considered a report from the Group's legal advisors concerning potential regulatory risks over the next 12 months.
- Reviewed the Group's register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Reviewed the Committee's terms of reference.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

STEPHEN YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the year to 31 December 2014.

The year started with the Committee completing the tendering process for the appointment of the Group's auditor. The final phase, which took place after last year's report was published, involved a presentation by each of the candidate firms to the Committee and executive management. Following this, based on the quality of the audit being offered, the Committee recommended to the Board that PricewaterhouseCoopers (PwC) be appointed. The Board accepted the recommendation and PwC were duly appointed auditor of the Group at the AGM in May 2014. The Committee welcomes PwC to the role and is looking forward to an effective and efficient relationship with them.

A number of high profile governance failures has directed attention towards the level of transparency and openness in companies. One element of establishing an effective culture in this area is a company's whistleblowing procedure and the Committee reviewed the Group's policy and procedure to ensure that it still accorded with best practice and was an effective channel for the raising of any issues. This resulted in an updating of the policy and the introduction of an independent helpline.

There continues to be considerable work by a number of institutions aimed at improving the value and perception of the annual audit. This led to the publication at the end of 2014 of a discussion paper by the Department for Business, Innovation and Skills (BIS) on the implementation of the new EU Audit Directive and Regulation. The Regulations impose new requirements on a number of matters including the composition of the Audit Committee and the use of auditors for non-audit work. The Committee will monitor the effect that these have on its form and procedures as it proceeds through the legislative process over the next year.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

26 FEBRUARY 2015

REPORT OF THE AUDIT COMMITTEE

Membership
Throughout 2014 the Committee consisted of Stuart Corbyn, Simon Fraser and Richard Dakin under the chairmanship of Stephen Young. All Committee members are considered independent by the Board, having no day-to-day involvement with the Company and not having been with the Company for more than nine years. Stephen Young is a qualified accountant and is considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise, at the Company's expense, if required.

Roles and responsibilities
The terms of reference for the Committee are available on the Company's website.

Meetings
The Committee met four times during the year to discharge its responsibilities. These were attended by the Group's external auditor and members of the Group's senior management when invited. Two additional meetings are held each year with the Group's independent property valuers (CBRE) to consider the valuation of the property portfolio.

Work of the Committee
During the year, the Committee has carried out the following:

- Reviewed the Group's interim and annual financial statements and the published interim management statements to consider whether, taken as a whole, they were each fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

  In carrying out this review, and subsequently reporting its opinion to the Board, the Committee had regard to the following:

  - The adequacy of the systems for bringing all the relevant information to the attention of the preparers of the report and accounts and the adequacy of the controls operating over the system.
  - Whether the procedures for obtaining assurance over the accuracy of the information were sufficient.
  - The consistency of the reports within themselves and with each other and whether they are in accordance with the information received by the Board during the year.
  - Whether the statements were written in straightforward language with the use of any 'adjusted' measures adequately explained.

- Considered the appropriateness of the accounting policies, assumptions, judgements and estimates used in the preparation of the financial statements.

  In discharging this responsibility, the Committee identified the following significant issues and carried out the procedures set out below:

  - Valuation of the Group's property portfolio

    The Committee considers this to be the major area of judgement in determining the accuracy of the financial statements. In view of this, meetings were held with the Group's external valuers before both the interim results and the final results to consider the portfolio valuation contained therein. These meetings were led by members of the Committee with relevant and current expertise in property valuation. Key matters discussed during the meetings include the assumptions underlying the valuation, any valuation which required a greater level of judgement than normal, for example, development properties and any valuation movements that were not broadly In line with that of the IPD benchmark. The assumptions were also discussed with the auditors who have their own valuation experts.

    These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.

  - Compliance with REIT guidelines

    The Committee noted that, should the Group not comply with the REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee noted the frequency with which compliance with the regulations was reported to the Board and considered the margin by which the Group complied.

    Based on this and the level of headroom shown in the latest Group forecasts, the Committee agreed that no further action was required for the current year.

  - Accounting for borrowings and derivatives

    The Committee considered this to be an area of increased risk for the current year due to the option to redeem the Group's 2.75% convertible bond 2016 being exercised over the year end.

    Management explained the conversion process and accounting treatment to the Committee and it was noted that the Group's lawyers were advising on the transaction. Management also advised the Committee that the Auditor concurred with the proposed accounting treatment. This was subsequently confirmed by the Auditor.

    The Committee was satisfied with the level of assurance gained from these additional procedures.

- Revenue recognition
  Revenue recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee had, in previous years, considered two treatments where the level of risk might have been elevated. Having discussed both treatments with management and established that the treatments and assumptions were consistent with previous years, the Committee decided that no additional procedures were required in the current year.
- Management override of internal control
  In the absence of an internal audit function, the Committee looks for external assurance on the operation of certain controls in the business. This is achieved by instructing third parties (which may include the external Auditor) to review the control environment in a particular area. The Committee remains satisfied with the level of assurance gained from this process.

- Assessed the effectiveness of the external audit
  In assessing the effectiveness of the external audit the Committee took into account the views of both management and the Auditor. It also reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its ability to respond to any changes in the business. Having considered these factors the Committee has recommended the re-appointment of PwC to the Board.
- Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external Auditor.
  In assessing this matter the Committee noted the following:-
  - Each year the Auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. This is provided after the Auditor has considered the following matters:
    – Any relationships of which they are aware that, in their professional judgement, may reasonably be thought to bear on their independence and the objectivity of the audit engagement partner and staff;
    – Any services that the Auditor has provided to the Group in addition to the audit of the consolidated financial statements;
    – The total amount of fees that the Auditor has charged the Group for the provision of services during the reporting period; and
    – The amounts of any future services that have been contracted for, or where a written proposal has been submitted.
  - The Company operates a policy under which the Auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee. There have been no such appointments since PwC were appointed in May 2014.
- Completed the tendering process for the 2014 audit of the Group.
  The tendering process was started in December 2013 with participating firms preparing and submitting proposals against a number of specific criteria. The final phase of the tendering process involved presentations to the Committee and executive management in March 2014. Following these presentations, a recommendation was made to the Board based on the quality of the audit being offered, and subsequently a resolution to appoint PwC as the Group's Auditor was passed at the 2014 AGM. In accordance with the current regulations, the Group will re-tender the audit after 10 years.
- Reviewed the terms of reference for the Committee.
- Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business, but that external assurance may be sought in particular areas identified as higher risk.
- Noted that the accounts for the Group's pension schemes had been audited and no matters raised.
- Reviewed the Group's whistleblowing policy and procedure and introduced improvements to ensure that it continued to meet best practice.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

26 FEBRUARY 2015

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's report to the members of Derwent London plc
Report on the financial statements

Our opinion

In our opinion:

- Derwent London plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Derwent London plc's financial statements comprise:

- the balance sheets as at 31 December 2014;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the cash flow statements for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Certain required disclosures have been presented elsewhere in the annual report rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our audit approach

Materiality

- Overall Group materiality: £42.0m which represents 1% of total assets.
- Specific Group materiality: £2.9m which represents 5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties. The specific Group materiality has been applied to property and other income, administrative expenses, provisions and working capital balances.

Audit scope

- This is our first audit of Derwent London plc (the 'Group') so the scope included gaining comfort over opening balances.
- The Group audit team carries out the statutory audits of all components within the Group and the consolidation.

Areas of focus

- Valuation of investment properties due to significance and subjectivity.
- Compliance with the REIT guidelines on which the Group's tax status is based due to the consequences of any breach.
- Accounting for borrowings and the associated interest rate swaps, including the conversion of the 2.75% convertible bonds 2016 in January 2015.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of investment properties Refer to pages 114 and 115 (Report of the Audit Committee), pages 138 to 140 (Notes to the financial statements – note 16) and pages 165 to 168 (Significant accounting policies). The Group's investment properties were carried at £4,041.0m as at 31 December 2014 and a revaluation gain of £667.1m was accounted for under revaluation surplus in the Group income statement. In excess of 98% of the value of the Group's investment property portfolio comprises offices and other commercial space within central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland. Valuations are carried out by third party valuers in accordance with The RICS Valuation – Professional Standards and IAS 40. There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group. The central London investment property includes: ■ Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method. ■ Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a market based profit margin providing a return on development risk). The most significant judgements and estimates affecting all the valuations include yields and estimated rental value (ERV) growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation. Yields and ERVs have moved favourably reflecting the buoyancy of the central London property market which has driven a significant increase in valuation over the year. The revaluation gain was also boosted by new lettings and significant progress on a number of development projects where further costs have been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	The external valuers used by the Group are CBRE Limited for the majority of the Group's portfolio. Smiths Gore value a small amount of investment property portfolio in Scotland. We assessed the competence, capabilities and objectivity of the firms and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the firms remain independent. We agreed the property information in the valuation by tracing a sample of inputs to the underlying property records held by the Group (which were also tested during the audit). We tested the data inputs underpinning the valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them back to supporting documentation. For the properties currently under development, we traced the costs included within development appraisals to quantity surveyor reports. In addition, we visited a number of the key properties in central London that are under development to confirm the status of developments and a selection of assets within the Scottish portfolio. We met with the external valuers both with management and independently of management and obtained the valuation reports to discuss and challenge the methodology and assumptions. We identified the following assets for further testing: ongoing and planned development projects; high value assets over £100m; acquisitions; and standing investments where the valuation fell outside the expected range. In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for central London offices and assumptions appropriately reflected comparable market information. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate, and, whether this was robustly challenged by the external independent valuers where appropriate. Variances were predominantly due to property specific factors such as new lettings at higher rents or the de-risking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate. We challenged the Directors and Audit Committee on the upward movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.

Area of focus	How our audit addressed the area of focus
Compliance with REIT guidelines Refer to pages 114 and 115 (Report of the Audit Committee) and pages 165 to 168 (Significant accounting policies). The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of inadvertently breaching and the Group's profit becoming subject to tax.	We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules. We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs, calculation and application of the rules. We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.
Accounting for borrowings and derivatives Refer to pages 114 and 115 (Report of the Audit Committee), pages 145 to 152 (Notes to the financial statements – note 24) and pages 165 to 168 (Significant accounting policies). The Group has secured and unsecured debt totalling £1,019.8m (2013: £953.5m). The debt includes unsecured convertible debt of £308.0m (2013: £302.7m) with an option for the Group to convert the debt when certain criteria have been met. It is the bondholder's decision when the option has been exercised to either convert the bonds to shares or redeem for cash. The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2014 by external valuers and the fair value was £25.2m (2013: £15.9m). The valuation of the swaps is based on market movements which can fluctuate significantly in the year and could have a material impact on the Group financial statements. The valuation also involves judgement and therefore is considered an area of audit focus. On 17 December 2014, the Group exercised its option to redeem its £175m 2.75% convertible bonds 2016 on 30 January 2015 at their principal amount together with any accrued interest. As at 31 December 2014, no bondholder had indicated whether it would redeem its Bonds or elect to exercise its alternative to convert to shares. Subsequent to year end, all bondholders have elected to convert their debt to shares. This was the Group's first debt conversion and accounting for convertible debt can be complex, including the need to identify potential embedded derivatives. We therefore made this an area of audit focus.	We obtained and reviewed every loan contract to understand the terms and conditions. Where debt covenants were identified, we reperformed management's calculations to verify compliance with the contracts. The carrying value of all debt was agreed to third party confirmations. As this was our first audit, we checked that the initial recognition and subsequent measurement of debt was in accordance with IAS 39 and we also evaluated the disclosures in the financial statements to confirm that the presentation met the requirements of IAS 32. We obtained the convertible bond documentation to understand each of the clauses and the impact of the exercise of the option to redeem. We obtained management's proposed accounting treatment and were satisfied that it was consistent with the convertible bond documentation and accounting standards. We assessed and agreed the classification of the debt as current due to the conversion in January 2015. For all derivatives, we agreed the carrying value to valuations obtained directly from the third party valuers, JC Rathbone Associates. We assessed the competence and capabilities of the external valuers by considering their qualifications and market experience. We also performed independent valuations to recalculate the value using independent market data. From our work on the terms of the debt arrangements in place as at 31 December 2014, we considered that the borrowings and derivatives were accounted for line with the technical requirements, valued correctly in the context of materiality, and disclosed appropriately.

How we tailored the audit scope

This was our first year audit of the Group so we carried out procedures to gain comfort over opening balances including a review of the predecessor auditor's working papers.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's properties are spread across 43 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint venture. The Group audit team performed all of this work by applying overall Group materiality and specific materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£42.0m
How we determined it	1% of total assets
Specific materiality	£2.9m
How we determined it	5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality to test property and other income, administrative expenses, provisions and working capital balances.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.0m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 89, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Other required reporting
Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
■ Information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
■ the statement given by the Directors on page 87, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
■ the section of the annual report on pages 114 and 115, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 81, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

CRAIG HUGHES
(SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 FEBRUARY 2015

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FINANCIAL STATEMENTS

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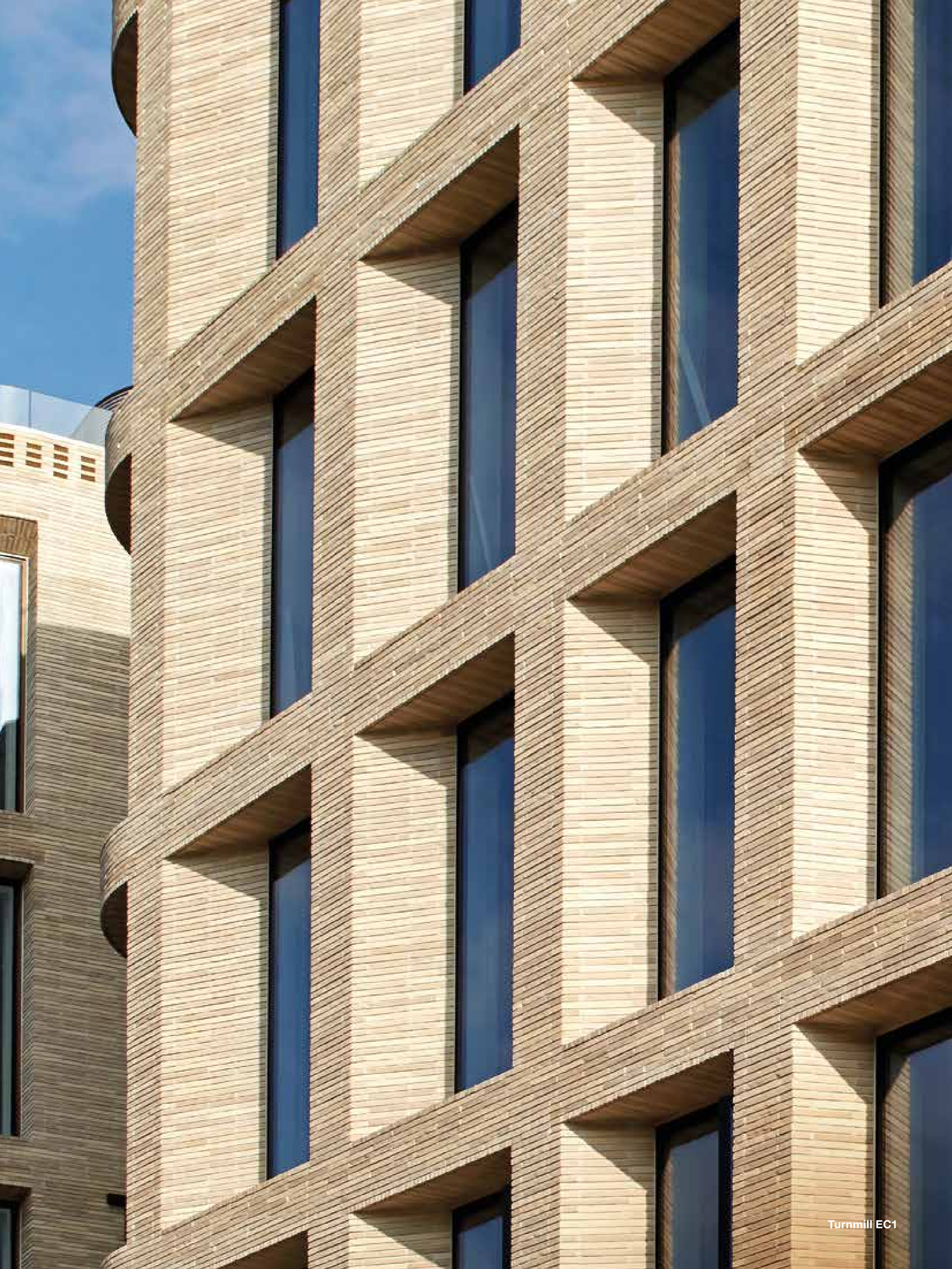

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GROUP INCOME STATEMENT

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Gross property and other income	5	**180.5**	160.5
Net property and other income	5	**136.1**	124.3
Administrative expenses		**(28.1)**	(26.4)
Movement in valuation of cash-settled share options		**(0.3)**	(0.3)
Total administrative expenses		**(28.4)**	(26.7)
Revaluation surplus	16	**667.1**	335.6
Profit on disposal of investment property	6	**28.2**	53.5
Profit on disposal of investment in joint venture	6	**2.0**	–
Profit from operations		**805.0**	486.7
Finance income	7	**–**	0.2
Finance costs		**(42.4)**	(41.4)
Loan arrangement costs written off		**–**	(3.2)
Total finance costs	7	**(42.4)**	(44.6)
Movement in fair value of derivative financial instruments		**(9.4)**	38.5
Financial derivative termination costs	8	**(2.0)**	(13.7)
Share of results of joint ventures	9	**2.5**	0.8
Profit before tax	10	**753.7**	467.9
Tax charge	15	**(3.9)**	(2.4)
Profit for the year		**749.8**	465.5
Attributable to:			
Equity shareholders	29	**737.7**	456.6
Non-controlling interest		**12.1**	8.9
Earnings per share	38	**718.60p**	446.40p
Diluted earnings per share	38	**647.78p**	412.72p

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Profit for the year		**749.8**	465.5
Actuarial losses on defined benefit pension scheme	14	**(1.6)**	–
Revaluation surplus of owner-occupied property	16	**4.8**	1.9
Deferred tax on revaluation surplus	26	**(0.9)**	(0.1)
Other comprehensive income that will not be reclassified to profit or loss		**2.3**	1.8
Total comprehensive income relating to the year		**752.1**	467.3
Attributable to:			
Equity shareholders		**740.0**	458.4
Non-controlling interest		**12.1**	8.9
		752.1	467.3

The notes on pages 128 to 168 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2014

	Note	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Non-current assets					
Investment property	16	**4,041.0**	3,242.9	**–**	–
Property, plant and equipment	17	**27.2**	22.2	**1.6**	1.8
Investments	18	**7.4**	5.1	**1,184.6**	899.1
Deferred tax	26	**–**	–	**2.2**	4.3
Pension scheme surplus	14	**–**	0.8	**–**	0.8
Other receivables	19	**78.9**	72.1	**–**	–
		4,154.5	3,343.1	**1,188.4**	906.0
Current assets					
Trading property	16	**24.0**	22.6	**–**	–
Trade and other receivables	20	**32.0**	53.5	**1,282.1**	1,208.6
Corporation tax asset		**0.2**	–	**0.8**	0.4
Cash and cash equivalents	31	**14.8**	12.5	**14.2**	10.9
		71.0	88.6	**1,297.1**	1,219.9
Non-current assets held for sale	21	**–**	4.8	**–**	–
Total assets		**4,225.5**	3,436.5	**2,485.5**	2,125.9
Current liabilities					
Borrowings	24	**170.5**	–	**170.5**	–
Trade and other payables	22	**89.8**	83.6	**348.0**	282.8
Corporation tax liability		**–**	1.4	**–**	–
Provisions	23	**0.8**	1.7	**0.8**	0.7
		261.1	86.7	**519.3**	283.5
Non-current liabilities					
Borrowings	24	**857.6**	961.7	**631.5**	734.9
Derivative financial instruments	24	**25.2**	15.9	**22.7**	13.9
Provisions	23	**0.7**	0.7	**0.7**	0.7
Pension scheme deficit	14	**0.2**	–	**0.2**	–
Deferred tax	26	**5.0**	1.0	**–**	–
		888.7	979.3	**655.1**	749.5
Total liabilities		**1,149.8**	1,066.0	**1,174.4**	1,033.0
Total net assets		**3,075.7**	2,370.5	**1,311.1**	1,092.9
Equity					
Share capital	27	**5.1**	5.0	**5.1**	5.0
Share premium	28	**174.0**	170.4	**174.0**	170.4
Other reserves	28	**952.5**	948.6	**936.9**	651.4
Retained earnings	28	**1,880.6**	1,180.0	**195.1**	266.1
Equity shareholders' funds		**3,012.2**	2,304.0	**1,311.1**	1,092.9
Non-controlling interest		**63.5**	66.5	**–**	–
Total equity		**3,075.7**	2,370.5	**1,311.1**	1,092.9

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2015.

JOHN D. BURNS
DIRECTOR

DAMIAN M.A. WISNIEWSKI
DIRECTOR

The notes on pages 128 to 168 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Group							
At 1 January 2014	5.0	170.4	948.6	1,180.0	2,304.0	66.5	2,370.5
Profit for the year	–	–	–	737.7	737.7	12.1	749.8
Other comprehensive income	–	–	3.9	(1.6)	2.3	–	2.3
Share-based payments	0.1	1.5	–	2.9	4.5	–	4.5
Dividends paid	–	–	–	(36.3)	(36.3)	(15.1)	(51.4)
Scrip dividends	–	2.1	–	(2.1)	–	–	–
At 31 December 2014	**5.1**	**174.0**	**952.5**	**1,880.6**	**3,012.2**	**63.5**	**3,075.7**
At 1 January 2013	5.0	165.3	934.0	756.1	1,860.4	57.6	1,918.0
Profit for the year	–	–	–	456.6	456.6	8.9	465.5
Other comprehensive income	–	–	1.8	–	1.8	–	1.8
Share-based payments	–	0.4	0.5	2.5	3.4	–	3.4
Issue of convertible bonds	–	–	12.3	–	12.3	–	12.3
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2013	5.0	170.4	948.6	1,180.0	2,304.0	66.5	2,370.5
Company							
At 1 January 2014	5.0	170.4	651.4	266.1	1,092.9	–	1,092.9
Profit for the year	–	–	–	251.6	251.6	–	251.6
Other comprehensive income	–	–	–	(1.6)	(1.6)	–	(1.6)
Share-based payments	0.1	1.5	–	2.9	4.5	–	4.5
Transfer between reserves[2]	–	–	285.5	(285.5)	–	–	–
Dividends paid	–	–	–	(36.3)	(36.3)	–	(36.3)
Scrip dividends	–	2.1	–	(2.1)	–	–	–
At 31 December 2014	**5.1**	**174.0**	**936.9**	**195.1**	**1,311.1**	**–**	**1,311.1**
At 1 January 2013	5.0	165.3	681.9	49.9	902.1	–	902.1
Profit for the year	–	–	–	205.6	205.6	–	205.6
Share-based payments	–	0.4	0.5	2.5	3.4	–	3.4
Issue of long-term intercompany loan	–	–	12.3	–	12.3	–	12.3
Transfer between reserves[2]	–	–	(43.3)	43.3	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2013	5.0	170.4	651.4	266.1	1,092.9	–	1,092.9

[1] See note 28.
[2] The amounts in 2013 and 2014 relate to the impairment, and reversal thereof, of the Company's investment in London Merchant Securities Ltd.

The notes on pages 128 to 168 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2014

	Note	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Operating activities					
Property income		**135.2**	123.3	**–**	–
Property expenses		**(8.1)**	(9.1)	**–**	–
Cash paid to and on behalf of employees		**(21.7)**	(19.0)	**(20.4)**	(18.1)
Other administrative expenses		**(5.3)**	(4.9)	**(5.9)**	(5.8)
Interest received		**–**	0.2	**–**	–
Interest paid	7	**(31.0)**	(32.3)	**(17.2)**	(19.8)
Other finance costs		**(3.0)**	(3.4)	**(2.5)**	(2.8)
Other income		**1.7**	2.8	**1.6**	2.2
Distributions received from joint ventures		**0.1**	1.2	**–**	0.5
Tax paid in respect of operating activities		**(2.3)**	(1.3)	**(0.4)**	–
Net cash from/(used in) operating activities		**65.6**	57.5	**(44.8)**	(43.8)
Investing activities					
Acquisition of investment properties		**(92.4)**	(130.1)	**–**	–
Capital expenditure on the property portfolio	7	**(113.2)**	(108.4)	**–**	–
Disposal of investment and trading properties		**114.4**	149.7	**–**	–
Disposal of investment in joint venture		**4.9**	–	**–**	–
Repayment of loan by joint venture on disposal		**1.9**	–	**–**	–
Purchase of property, plant and equipment		**(0.3)**	(0.4)	**(0.3)**	(0.4)
Purchase of investment in subsidiary		**–**	–	**–**	(33.4)
Advances to non-controlling interest holder		**(2.0)**	(2.5)	**–**	–
REIT conversion charge		**–**	(0.6)	**–**	–
Net cash used in investing activities		**(86.7)**	(92.3)	**(0.3)**	(33.8)
Financing activities					
Net proceeds of bond issue		**–**	146.2	**–**	–
Repayment of revolving bank loan		**–**	(274.5)	**–**	(274.5)
Drawdown of new revolving bank loan		**–**	280.6	**–**	280.6
Net movement in intercompany loans		**–**	–	**25.0**	190.6
Net movement in revolving bank loan		**(38.9)**	–	**(38.9)**	–
Repayment of non-revolving bank loans		**–**	(65.0)	**–**	(65.0)
Drawdown of private placement notes		**99.0**	–	**99.0**	–
Financial derivative termination costs		**(2.0)**	(13.7)	**(2.0)**	(13.7)
Net proceeds of share issues	27	**1.5**	0.4	**1.5**	0.4
Dividends paid	30	**(36.2)**	(31.1)	**(36.2)**	(31.1)
Net cash from financing activities		**23.4**	42.9	**48.4**	87.3
Increase in cash and cash equivalents in the year		**2.3**	8.1	**3.3**	9.7
Cash and cash equivalents at the beginning of the year		**12.5**	4.4	**10.9**	1.2
Cash and cash equivalents at the end of the year	31	**14.8**	12.5	**14.2**	10.9

The notes on pages 128 to 168 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1 Basis of preparation

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

Going concern

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

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

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

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

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

2 Changes in accounting policies

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

New standards adopted during the year

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

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

Standards and interpretations in issue but not yet effective

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

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

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

3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The Group's significant accounting policies are stated in note 41. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements.

Property portfolio valuation

The Group uses the valuation carried out by its independent valuers as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. More information is provided in note 16.

Outstanding rent reviews

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

Compliance with the real estate investment trust (REIT) taxation regime

The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as follows:

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

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

Contingent consideration

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

4 Segmental information

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

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 38. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

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

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

4 Segmental information (continued)

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

Gross property income

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

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

Property portfolio

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

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

5 Property and other income

	2014 £m	2013 £m
Gross rental income	**136.7**	130.9
Surrender premiums received	**0.1**	1.6
Write-off of associated rents previously recognised in advance	**–**	(0.9)
	0.1	0.7
Other property income	**1.6**	–
Gross property income	**138.4**	131.6
Trading property sales proceeds	**15.7**	–
Service charge income	**24.4**	26.9
Other income	**2.0**	2.0
Gross property and other income	**180.5**	160.5

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

Included within rental income is £1.5m (2013: £2.3m) of income which was derived from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £7.0m (2013: £5.6m) relating to rents recognised in advance of the cash receipts.

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

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

6 Profit on disposal

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

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

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

7 Finance income and costs

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

Finance costs of £5.3m (2013: £4.8m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid during 2014 were £36.3m (2013: £37.1m) of which £5.3m (2013: £4.8m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

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

8 Financial derivative termination costs

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

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

9 Share of results of joint ventures

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

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

10 Profit before tax

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

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

11 Directors' emoluments

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

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

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 93 to 110. The only key management personnel are the Directors.

12 Employees

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

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

13 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 93 to 110, other than the employee share plan that is detailed below.

Group and Company – equity-settled option scheme

This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 93 to 110. The Directors are not entitled to any awards under this scheme.

	Exercise price £	Date from which exercisable	Expiry date	Number of options
	6.10	18/03/2012	17/03/2019	11,925
	13.20	18/03/2013	17/03/2020	50,000
	16.60	25/03/2014	24/03/2021	83,500
	17.19	12/04/2015	11/04/2022	99,750
Outstanding at 1 January 2013				245,175
Options granted during the year	21.99	10/04/2016	09/04/2023	95,500
Options exercised	6.10			(2,405)
Options exercised	13.20			(26,160)
Options lapsed	13.20			(2,000)
Options lapsed	16.60			(2,250)
Options lapsed	17.19			(3,500)
Options lapsed during the year				(7,750)
Outstanding at 31 December 2013				304,360
Options granted during the year	27.39	07/04/2017	06/04/2024	100,000
Options exercised	6.10			(3,980)
Options exercised	13.20			(18,840)
Options exercised	16.60			(74,925)
Options lapsed	17.19			(1,500)
Options lapsed	21.99			(4,750)
Options lapsed	27.39			(2,500)
Options lapsed during the year				(8,750)
Outstanding at 31 December 2014				**297,865**

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

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

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

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

For both the 2014 and 2013 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

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

Group – cash-settled option scheme

All options relating to the cash-settled option scheme arose as a result of the acquisition of London Merchant Securities plc. All outstanding options were exercised during 2014.

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

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

14 Pension costs

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

Defined contribution plan

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

Defined benefit plan

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

Amounts included in the balance sheet

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

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

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of the disclosures, allowance has been made for future statutory revaluation of benefits up to retirement for deferred pensioners but not for active members. At the balance sheet date the accumulated benefit obligation was £15.1m (2013: £11.1m).

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

Reconciliation of the impact of the asset ceiling

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

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

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

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

14 Pension costs (continued)

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

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

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

Defined benefit costs recognised in the income statement

	2014 £m	2013 £m
Current service cost	**0.1**	0.1
Defined benefit costs recognised in profit or loss	**0.1**	0.1

Amounts recognised in other comprehensive income

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

Fair value of plan assets

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

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

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

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2014.

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

Significant actuarial assumptions

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

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

Life expectancy at age 65

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

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

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

The sensitivities shown above are approximate, and each one considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth. The average duration of the defined benefit obligation at the year ended 31 December 2014 is 25 years.

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

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2015 is £0.7m.

15 Tax charge

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

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

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

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

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

16 Property portfolio

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

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

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

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

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

Reconciliation of revaluation surplus

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

Valuation process

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

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

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

Valuation techniques

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

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

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

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2014 or 2013.

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

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

16 Property portfolio (continued)

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

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

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

Sensitivity of measurement to variations in the significant unobservable inputs

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

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

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

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

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

Historic cost

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

17 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2014	19.7	1.5	1.0	22.2
Additions	0.3	–	0.2	0.5
Depreciation	–	–	(0.3)	(0.3)
Revaluation	4.8	–	–	4.8
At 31 December 2014	**24.8**	**1.5**	**0.9**	**27.2**
At 1 January 2013	17.9	1.5	0.9	20.3
Additions	–	–	0.5	0.5
Disposals	–	–	(0.1)	(0.1)
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	1.9	–	–	1.9
At 31 December 2013	19.7	1.5	1.0	22.2
Net book value				
Cost or valuation	24.8	1.5	2.6	28.9
Accumulated depreciation	–	–	(1.7)	(1.7)
At 31 December 2014	**24.8**	**1.5**	**0.9**	**27.2**
Net book value				
Cost or valuation	19.7	1.5	2.5	23.7
Accumulated depreciation	–	–	(1.5)	(1.5)
At 31 December 2013	19.7	1.5	1.0	22.2
Company				
At 1 January 2014	–	0.9	0.9	1.8
Additions	–	–	0.1	0.1
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2014	**–**	**0.9**	**0.7**	**1.6**
At 1 January 2013	–	0.9	0.8	1.7
Additions	–	–	0.5	0.5
Disposals	–	–	(0.1)	(0.1)
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2013	–	0.9	0.9	1.8
Net book value				
Cost or valuation	–	0.9	2.6	3.5
Accumulated depreciation	–	–	(1.9)	(1.9)
At 31 December 2014	**–**	**0.9**	**0.7**	**1.6**
Net book value				
Cost or valuation	–	0.9	2.5	3.4
Accumulated depreciation	–	–	(1.6)	(1.6)
At 31 December 2013	–	0.9	0.9	1.8

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in December 2014. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 31 December 2014 was £1.5m (2013: £1.5m) and £0.9m (2013: £0.9m) in the Company. See note 16 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Investments

Group

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

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

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

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

Company

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

At 31 December 2014 and 31 December 2013, the carrying value of the investment in London Merchant Securities Ltd (LMS) was reviewed in accordance with IAS 36 Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement. In the opinion of the Directors, the most appropriate estimate of the fair value of LMS is the net asset value of its subsidiaries. Principally due to the valuation movement in investment properties, there has been an increase in the net asset value of these subsidiaries which resulted in an impairment reversal in the Company income statement of £285.5m. In 2013, there was a decrease in the net asset value mainly as a result of dividends paid by LMS in the year, which resulted in an impairment in the Company income statement of £43.3m.

19 Other receivables (non-current)

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

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

20 Trade and other receivables

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

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

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

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

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

21 Non-current assets held for sale

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

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

22 Trade and other payables

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

23 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	National insurance on share-based payments £m	Total £m
Group				
At 1 January 2014	0.9	0.2	1.3	2.4
Provided in the income statement	0.3	–	0.9	1.2
Provided in reserves	–	0.2	–	0.2
Utilised in year	(1.2)	(0.2)	(0.9)	(2.3)
At 31 December 2014	**–**	**0.2**	**1.3**	**1.5**
Due within one year	–	–	0.8	0.8
Due after one year	–	0.2	0.5	0.7
	–	**0.2**	**1.3**	**1.5**
At 1 January 2013	0.9	0.4	1.2	2.5
Provided in the income statement	0.3	–	1.0	1.3
Provided in reserves	–	0.2	–	0.2
Utilised in year	(0.3)	(0.4)	(0.9)	(1.6)
At 31 December 2013	0.9	0.2	1.3	2.4
Due within one year	0.9	–	0.8	1.7
Due after one year	–	0.2	0.5	0.7
	0.9	0.2	1.3	2.4
Company				
At 1 January 2014	–	0.2	1.2	1.4
Provided in the income statement	–	–	0.8	0.8
Provided in reserves	–	0.2	–	0.2
Utilised in year	–	(0.2)	(0.7)	(0.9)
At 31 December 2014	**–**	**0.2**	**1.3**	**1.5**
Due within one year	–	–	0.8	0.8
Due after one year	–	0.2	0.5	0.7
	–	**0.2**	**1.3**	**1.5**
At 1 January 2013	–	0.4	1.0	1.4
Provided in the income statement	–	–	1.0	1.0
Provided in reserves	–	0.2	–	0.2
Utilised in year	–	(0.4)	(0.8)	(1.2)
At 31 December 2013	–	0.2	1.2	1.4
Due within one year	–	–	0.7	0.7
Due after one year	–	0.2	0.5	0.7
	–	0.2	1.2	1.4

The potential liability for cash-settled share options is based on the valuation carried out at each balance sheet date (see note 13). Provisions are also made for those parts of the executive Directors' bonuses which are to be deferred in shares (see report of the Remuneration Committee).

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

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

24 Borrowings and derivative financial instruments

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

2.75% unsecured convertible bonds 2016

In June 2011 the Group issued its first convertible bond. This unsecured instrument paid a coupon of 2.75% until January 2015 when it was redeemed. The conversion price was £22.22 per share. In accordance with IAS 32, the equity and debt components of the bond have been accounted for separately and the fair value of the debt component was determined using the market interest rate for an equivalent non-convertible bond, deemed to be 3.99%. As a result, £165.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value has been amortised through the income statement from the date of issue. Issue costs of £4.8m were allocated between equity and debt and the element relating to the debt component has been amortised over the life of the bond. The issue costs apportioned to equity of £0.2m have not been amortised. The fair value was determined by the ask-price of £135.71 per £100 as at 31 December 2014 (2013: £122.34 per £100). The carrying value at 31 December 2014 was £170.5m (2013: £167.7m).

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

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(9.6)
Debt component on issue	165.4
Unamortised issue costs	(1.4)
Amortisation of fair value adjustment	6.5
Carrying amount included in borrowings	170.5

24 Borrowings and derivative financial instruments (continued)

1.125% unsecured convertible bonds 2019

In July 2013 the Group issued its second convertible bond. The unsecured instrument pays a coupon of 1.125% until July 2019 or its conversion date, if earlier. The initial conversion price was set at £33.35 per share. In accordance with IAS 32, the equity and debt components of the bond are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.67%. As a result, £137.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £12.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £3.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bond. The issue costs apportioned to equity of £0.3m have not been amortised. The fair value was determined by the ask-price of £109.49 per £100 as at 31 December 2014 (2013: £100.48 per £100). The carrying value at 31 December 2014 was £137.5m (2013: £135.0m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	150.0
Fair value adjustment on issue allocated to equity	(12.6)
Debt component on issue	137.4
Unamortised issue costs	(2.7)
Amortisation of fair value adjustment	2.8
Carrying amount included in borrowings	137.5

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2014 was determined by the ask-price of £129.94 per £100 (2013: £113.72 per £100). The carrying value at 31 December 2014 was £189.8m (2013: £190.6m).

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

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

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilt plus an implied margin. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2014 was £81.9m (2013: £81.8m).

Bank borrowings

The Group refinanced the majority of its bank loans in the open market in September 2013. In December 2014, an agreement was signed to amend and extend the £550m facility arranged in September 2013 with a reduced margin and a revised maturity. The margin charged on the amended £550m facility is close to the margin charged on the bank facilities not previously refinanced. The fair values of the Group's bank loans are therefore deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2014	**–**	**–**	**20.0**	**–**	**–**	**301.0**	**321.0**
At 31 December 2013	–	–	–	20.0	263.0	–	283.0
Company							
At 31 December 2014	**–**	**–**	**20.0**	**–**	**–**	**301.0**	**321.0**
At 31 December 2013	–	–	–	20.0	263.0	–	283.0

Intercompany loans

The terms of the intercompany loans in the Company mirror those of the unsecured convertible bonds 2016 and 2019. As with the bonds, debt and equity components of the intercompany loans have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value at 31 December 2014 was £308.0m (2013: £302.7m).

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2014 for the period to the contracted expiry dates.

The Group also has a £70m forward starting interest rate swap effective from 30 March 2015. This swap is not included in the 31 December 2014 figures in the table below, but the financial impact from the effective date onwards is included in the relevant tables in this note.

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

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2014						
Interest rate swaps	283.0	2.84	4.0	255.0	2.77	3.9
At 31 December 2013						
Interest rate swaps	218.0	3.09	4.8	190.0	3.03	4.8

Secured and unsecured debt

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

At 31 December 2014, the Group's secured bank loans and the 3.99% secured loan were secured by a fixed charge over £475.7m (2013: £380.2m) and £225.2m (2013: £194.8m), respectively, of the Group's properties. In addition, the 2026 bonds were secured by a floating charge over a number of the Group's subsidiary companies which contain £749.2m (2013: £634.1m) of the Group's properties.

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

Fixed interest rate and hedged debt

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

24 Borrowings and derivative financial instruments (continued)

Interest rate exposure

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

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

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

Contractual undiscounted cash outflows

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

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2014							
2.75% unsecured convertible bonds 2016	175.0	–	–	–	–	–	175.0
1.125% unsecured convertible bonds 2019	–	–	–	–	150.0	–	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	–	249.0	249.0
Secured bank loans	–	–	70.0	28.0	–	–	98.0
Total on maturity	175.0	–	70.0	28.0	150.0	607.0	1,030.0
Leasehold liabilities	0.5	0.5	0.5	0.5	0.5	61.5	64.0
Interest on gross debt	30.9	30.1	31.3	29.3	29.3	152.1	303.0
Effect of interest rate swaps	7.6	6.6	5.3	3.2	2.4	0.7	25.8
Gross loan commitments	**214.0**	**37.2**	**107.1**	**61.0**	**182.2**	**821.3**	**1,422.8**
At 31 December 2013							
2.75% unsecured convertible bonds 2016	–	–	175.0	–	–	–	175.0
1.125% unsecured convertible bonds 2019	–	–	–	–	–	150.0	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Secured bank loans	–	–	–	70.0	28.0	–	98.0
Total on maturity	–	–	175.0	70.0	315.0	408.0	968.0
Leasehold liabilities	0.5	0.5	0.5	0.5	0.5	62.3	64.8
Interest on gross debt	30.8	33.8	34.9	34.4	27.7	102.1	263.7
Effect of interest rate swaps	6.7	5.2	2.2	0.1	(0.7)	(0.7)	12.8
Gross loan commitments	38.0	39.5	212.6	105.0	342.5	571.7	1,309.3

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
At 31 December 2014						
Maturing in:						
< 1 year	214.0	(30.9)	(7.6)	(0.5)	(4.5)	170.5
1 to 2 years	37.2	(30.1)	(6.6)	(0.5)	–	–
2 to 3 years	107.1	(31.3)	(5.3)	(0.5)	(0.4)	69.6
3 to 4 years	61.0	(29.3)	(3.2)	(0.5)	–	28.0
4 to 5 years	182.2	(29.3)	(2.4)	(0.5)	(12.5)	137.5
> 5 years	821.3	(152.1)	(0.7)	(53.2)	7.2	622.5
	1,422.8	**(303.0)**	**(25.8)**	**(55.7)**	**(10.2)**	**1,028.1**
At 31 December 2013						
Maturing in:						
< 1 year	38.0	(30.8)	(6.7)	(0.5)	–	–
1 to 2 years	39.5	(33.8)	(5.2)	(0.5)	–	–
2 to 3 years	212.6	(34.9)	(2.2)	(0.5)	(7.3)	167.7
3 to 4 years	105.0	(34.4)	(0.1)	(0.5)	(0.6)	69.4
4 to 5 years	342.5	(27.7)	0.7	(0.5)	(6.0)	309.0
> 5 years	571.7	(102.1)	0.7	(54.1)	(0.6)	415.6
	1,309.3	(263.7)	(12.8)	(56.6)	(14.5)	961.7

24 Borrowings and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2014							
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	–	249.0	249.0
Secured bank loan	–	–	70.0	–	–	–	70.0
Intercompany loans	175.0	–	–	–	150.0	–	325.0
Total on maturity	175.0	–	70.0	–	150.0	432.0	827.0
Interest on debt	19.1	18.1	19.3	17.6	18.0	78.1	170.2
Effect of interest rate swaps	6.9	5.9	4.7	2.7	2.3	0.7	23.2
Gross loan commitments	**201.0**	**24.0**	**94.0**	**20.3**	**170.3**	**510.8**	**1,020.4**
At 31 December 2013							
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Secured bank loan	–	–	–	70.0	–	–	70.0
Intercompany loans	–	–	175.0	–	–	150.0	325.0
Total on maturity	–	–	175.0	70.0	287.0	233.0	765.0
Interest on debt	18.9	21.8	22.6	22.0	15.8	20.2	121.3
Effect of interest rate swaps	5.9	4.6	1.9	(0.1)	(0.8)	(0.7)	10.8
Gross loan commitments	24.8	26.4	199.5	91.9	302.0	252.5	897.1

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Company						
At 31 December 2014						
Maturing in:						
< 1 year	201.0	(19.1)	(6.9)	–	(4.5)	170.5
1 to 2 years	24.0	(18.1)	(5.9)	–	–	–
2 to 3 years	94.0	(19.3)	(4.7)	–	(0.4)	69.6
3 to 4 years	20.3	(17.6)	(2.7)	–	–	–
4 to 5 years	170.3	(18.0)	(2.3)	–	(12.5)	137.5
> 5 years	510.8	(78.1)	(0.7)	–	(7.6)	424.4
	1,020.4	**(170.2)**	**(23.2)**	**–**	**(25.0)**	**802.0**
At 31 December 2013						
Maturing in:						
< 1 year	24.8	(18.9)	(5.9)	–	–	–
1 to 2 years	26.4	(21.8)	(4.6)	–	–	–
2 to 3 years	199.5	(22.6)	(1.9)	–	(7.3)	167.7
3 to 4 years	91.9	(22.0)	0.1	–	(0.6)	69.4
4 to 5 years	302.0	(15.8)	0.8	–	(5.9)	281.1
> 5 years	252.5	(20.2)	0.7	–	(16.3)	216.7
	897.1	(121.3)	(10.8)	–	(30.1)	734.9

Derivative financial instruments cash flows

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

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

Financial instruments – risk management

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

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

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 22 to 27 and page 87.

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

Principal financial instruments

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

General objectives, policies and processes

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

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

Credit risk

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

24 Borrowings and derivative financial instruments (continued)

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time. The quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 20.

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

Market risk

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

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

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2014, the proportion of fixed debt held by the Group was above this range at 94% (2013: 83%). During both 2014 and 2013, the Group's borrowings at variable rate were denominated in sterling.

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

Liquidity risk

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

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

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

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

Capital disclosures

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined at the end of this announcement and are derived in note 40.

25 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	14.8	–	14.8
Other assets – current[1]	–	16.3	–	16.3
	–	31.1	–	31.1
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(170.5)	(170.5)
1.125% unsecured convertible bonds 2019	–	–	(137.5)	(137.5)
6.5% secured bonds 2026	–	–	(189.8)	(189.8)
4.41% unsecured private placement notes 2029	–	–	(24.7)	(24.7)
4.68% unsecured private placement notes 2034	–	–	(74.2)	(74.2)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(341.2)	(341.2)
Leasehold liabilities	–	–	(8.3)	(8.3)
Derivative financial instruments	(25.2)	–	–	(25.2)
Other liabilities – current[2]	–	–	(52.4)	(52.4)
	(25.2)	–	(1,080.5)	(1,105.7)
At 31 December 2014	**(25.2)**	**31.1**	**(1,080.5)**	**(1,074.6)**
Financial assets				
Cash and cash equivalents	–	12.5	–	12.5
Other assets – current[1]	–	35.0	–	35.0
	–	47.5	–	47.5
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(167.7)	(167.7)
1.125% unsecured convertible bonds 2019	–	–	(135.0)	(135.0)
6.5% secured bonds 2026	–	–	(190.6)	(190.6)
3.99% secured loan 2024	–	–	(81.8)	(81.8)
Bank borrowings due after one year	–	–	(378.4)	(378.4)
Leasehold liabilities	–	–	(8.2)	(8.2)
Derivative financial instruments	(15.9)	–	–	(15.9)
Other liabilities – current[2]	–	–	(47.5)	(47.5)
	(15.9)	–	(1,009.2)	(1,025.1)
At 31 December 2013	(15.9)	47.5	(1,009.2)	(977.6)

25 Financial assets and liabilities and fair values (continued)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	14.2	–	14.2
Other assets – current[1]	–	1,280.8	–	1,280.8
	–	1,295.0	–	1,295.0
Financial liabilities				
4.41% unsecured private placement notes 2029	–	–	(24.7)	(24.7)
4.68% unsecured private placement notes 2034	–	–	(74.2)	(74.2)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(313.2)	(313.2)
Intercompany loans	–	–	(308.0)	(308.0)
Derivative financial instruments	(22.7)	–	–	(22.7)
Other liabilities – current[2]	–	(331.0)	(14.6)	(345.6)
	(22.7)	(331.0)	(816.6)	(1,170.3)
At 31 December 2014	**(22.7)**	**964.0**	**(816.6)**	**124.7**
Financial assets				
Cash and cash equivalents	–	10.9	–	10.9
Other assets – current[1]	–	1,207.0	–	1,207.9
	–	1,217.9	–	1,217.9
Financial liabilities				
3.99% secured loan 2024	–	–	(81.8)	(81.8)
Bank borrowings due after one year	–	–	(350.4)	(350.4)
Intercompany loans	–	–	(302.7)	(302.7)
Derivative financial instruments	(13.9)	–	–	(13.9)
Other liabilities – current[2]	–	(269.2)	(13.2)	(282.4)
	(13.9)	(269.2)	(748.1)	(1,031.2)
At 31 December 2013	(13.9)	948.7	(748.1)	186.7

[1] Other assets includes all amounts shown as trade and other receivables in note 20 except prepayments of £15.7m for the Group and £1.3m for the Company in 2014, and prepayments and social security taxes of £18.5m for the Group and £1.6m for the Company in 2013. All amounts are non-interest bearing and are receivable within one year.

[2] Other liabilities for the Group include all amounts shown as trade and other payables in note 22 except deferred income and sales and social security taxes of £33.2m for the Group and of £36.1m for the Company in 2014, and deferred income of £0.1m for the Group and £0.4m for the Company in 2013. All amounts are non-interest bearing and are due within one year.

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

	Group 2014 £m	2013 £m	Company 2014 £m	2013 £m
Net financial assets and liabilities	**(1,074.6)**	(977.6)	**124.7**	186.7
Other assets – current	**(16.3)**	(35.0)	**(1,280.8)**	(1,207.0)
Other liabilities – current	**52.4**	47.5	**345.6**	282.4
Cash and cash equivalents	**(14.8)**	(12.5)	**(14.2)**	(10.9)
Borrowings and derivative financial instruments	**(1,053.3)**	(977.6)	**(824.7)**	(748.8)

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 24.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2014					
2.75% unsecured convertible bonds 2016	(170.5)	(234.4)	–	–	Level 1
1.125% unsecured convertible bonds 2019	(137.5)	(154.5)	–	–	Level 1
6.5% secured bonds 2026	(189.8)	(227.4)	–	–	Level 1
4.41% unsecured private placement notes 2029	(24.7)	(27.6)	(24.7)	(27.6)	Level 2
4.68% unsecured private placement notes 2034	(74.2)	(83.5)	(74.2)	(83.5)	Level 2
3.99% secured loan 2024	(81.9)	(84.1)	(81.9)	(84.1)	Level 2
Bank borrowings due after one year	(341.2)	(347.0)	(313.2)	(318.5)	Level 2
Intercompany loans	–	–	(308.0)	(388.9)	Level 2
Derivative financial instruments	(25.2)	(25.2)	(22.7)	(22.7)	Level 2
	(1,045.0)	(1,183.7)	(824.7)	(925.3)	
Amounts not fair valued:					
Cash and cash equivalents	14.8		14.2		
Other assets – current	16.3		1,280.8		
Leasehold liabilities	(8.3)		–		
Other liabilities – current	(52.4)		(345.6)		
Net financial assets and liabilities	**(1,074.6)**		**124.7**		
At 31 December 2013					
2.75% unsecured convertible bonds 2016	(167.7)	(204.5)	–	–	Level 1
1.125% unsecured convertible bonds 2019	(135.0)	(138.1)	–	–	Level 1
6.5% secured bonds 2026	(190.6)	(199.0)	–	–	Level 1
3.99% secured loan 2024	(81.8)	(74.3)	(81.8)	(74.3)	Level 2
Bank borrowings due after one year	(378.4)	(385.0)	(350.4)	(356.9)	Level 2
Intercompany loans	–	–	(302.7)	(342.6)	Level 2
Derivative financial instruments	(15.9)	(15.9)	(13.9)	(13.9)	Level 2
	(969.4)	(1,016.8)	(748.8)	(787.7)	
Amounts not fair valued:					
Cash and cash equivalents	12.5		10.9		
Other assets – current	35.0		1,207.0		
Leasehold liabilities	(8.2)		–		
Other liabilities – current	(47.5)		(282.4)		
Net financial assets and liabilities	(977.6)		186.7		

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

26 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2014	5.5	(4.5)	1.0
Charged to the income statement	1.0	2.2	3.2
Change in tax rates in the income statement	(0.2)	0.1	(0.1)
Charged to other comprehensive income	0.9	–	0.9
At 31 December 2014	**7.2**	**(2.2)**	**5.0**
At 1 January 2013	4.1	(4.6)	(0.5)
Charged/(credited) to the income statement	1.6	(0.3)	1.3
Change in tax rates in the income statement	(0.3)	0.4	0.1
Charged to other comprehensive income	0.2	–	0.2
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
At 31 December 2013	5.5	(4.5)	1.0
Company			
At 1 January 2014	–	(4.3)	(4.3)
Charged to the income statement	–	2.0	2.0
Change in tax rates in the income statement	–	0.1	0.1
At 31 December 2014	**–**	**(2.2)**	**(2.2)**
At 1 January 2013	–	(4.3)	(4.3)
Credited to the income statement	–	(0.4)	(0.4)
Change in tax rates in the income statement	–	0.4	0.4
At 31 December 2013	–	(4.3)	(4.3)

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

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

27 Equity

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2013	102,014,231
Issued as a result of scrip dividends	197,368
Issued as a result of awards vesting under the Group's Performance Share Plan	232,918
Issued as a result of the exercise of share options[1]	33,065
At 31 December 2013	102,477,582
Issued as a result of scrip dividends	74,482
Issued as a result of awards vesting under the Group's Performance Share Plan	135,159
Issued as a result of the exercise of share options[1]	97,745
At 31 December 2014	**102,784,968**

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

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

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

28 Reserves

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

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS). At 31 December 2013, the Company balance also included its impairment of the investment in LMS.
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends and share-based payments.

Other reserves

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

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

Profit for the year includes a profit of £251.6m (2013: £205.6m) generated by the Company. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

30 Dividends

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

31 Cash and cash equivalents

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

32 Capital commitments

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

33 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2014 and 31 December 2013, there was no liability that could arise for the Company from the cross guarantees.

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

34 Leases

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

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

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

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

The Group has over 750 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 15 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases granted during 2014 was 9.4 years (2013: 13.8 years). Of these leases, on a weighted average basis, 91% (2013: 90%) included a rent free or half rent period.

35 Post balance sheet events

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

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

36 Principal operating companies

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

	Ownership[2]	Principal activity
Subsidiaries		
BBR Property Limited[1]	100%	Property trading
Derwent London Charlotte Street Limited[1]	100%	Property trading
Caledonian Properties Limited	100%	Property investment
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Angel Square Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London KSW Limited	100%	Property investment
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Derwent London Capital (Jersey) Limited[1]	100%	Finance company
Derwent London Capital No. 2 (Jersey) Limited[1]	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited[1]	100%	Holding company
Joint venture		
Primister Limited	50%	Property investment

[1] Indicates subsidiary undertakings held directly.

[2] All holdings are of ordinary shares.

The Company has taken advantage of the exemption in s410 of the Companies Act 2006 to disclose a list comprising solely the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return. The undertakings shown principally affect the figures in the Group's accounts.

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

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

37 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 93 to 110 and note 11. Other related party transactions are as follows:

Group

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which occupies offices owned by the Group for which they paid a commercial rent of £0.3m (2013: £0.3m). The Group also contributed £0.1m (2013: £0.1m) to LMS Capital plc's running costs.

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

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

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

Company

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

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

[1] The payable balance at 31 December 2014 includes the intercompany loan of £170.5m (2013: £167.7m) included in note 24.
[2] The payable balance at 31 December 2014 includes the intercompany loan of £137.5m (2013: £135.0m) included in note 24.
[3] Dormant company.
[4] Balance owed includes subsidiaries which form part of the LMS sub-group.

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

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

38 EPRA performance measures

Summary table

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

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

Number of shares

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

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

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

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

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

Cost ratio

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

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

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

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

38 EPRA performance measures (continued)

Profit before tax and earnings per share

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

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

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

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2014			
Net assets attributable to equity shareholders – diluted	3,182.7		2,864
Remove conversion of 2.75% unsecured convertible bonds 2016	(170.5)		
Net assets attributable to equity shareholders – undiluted	3,012.2	2,931	
Adjustment for:			
Revaluation of trading properties net of tax	4.1		
Deferred tax on revaluation surplus	7.2		
Fair value of derivative financial instruments	25.2		
Fair value adjustment to secured bonds	16.0		
Non-controlling interest in respect of the above	(3.2)		
EPRA net asset value – undiluted	3,061.5	2,979	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	170.5		
EPRA net asset value – diluted	**3,232.0**		**2,908**
Adjustment for:			
Deferred tax on revaluation surplus	(7.2)		
Fair value of derivative financial instruments	(25.2)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(14.2)		
Mark-to-market of secured bonds	(52.4)		
Mark-to-market of fixed rate secured loan	(1.1)		
Mark-to-market of fixed rate unsecured private placement notes	(11.1)		
Unamortised issue and arrangement costs	(11.9)		
Non-controlling interest in respect of the above	3.2		
EPRA triple net asset value – diluted	**3,112.1**		**2,800**
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(170.5)		
Unamortised issue and arrangement costs	(1.4)		
Mark-to-market of bonds	(62.5)		
EPRA triple net asset value – undiluted	2,877.7	2,800	
At 31 December 2013			
Net assets attributable to equity shareholders – diluted	2,471.7		2,230
Remove conversion of 2.75% unsecured convertible bonds 2016	(167.7)		
Net assets attributable to equity shareholders – undiluted	2,304.0	2,248	
Adjustment for:			
Revaluation of trading properties net of tax	2.1		
Deferred tax on revaluation surplus	5.5		
Fair value of derivative financial instruments	15.9		
Fair value adjustment to secured bonds	16.9		
Non-controlling interest in respect of the above	(2.2)		
EPRA net asset value – undiluted	2,342.2	2,286	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	167.7		
EPRA net asset value – diluted	2,509.9		2,264
Adjustment for:			
Deferred tax on revaluation surplus	(5.5)		
Fair value of derivative financial instruments	(15.9)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	0.1		
Mark-to-market of secured bonds	(24.0)		
Mark-to-market of fixed rate secured loan	8.7		
Unamortised issue and arrangement costs	(12.3)		
Non-controlling interest in respect of the above	2.2		
EPRA triple net asset value – diluted	2,463.2		2,222
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(167.7)		
Unamortised issue and arrangement costs	(2.3)		
Mark-to-market of bonds	(34.5)		
EPRA triple net asset value – undiluted	2,258.7	2,204	

38 EPRA performance measures (continued)

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

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

Vacancy rate

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

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

39 Total return

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

40 Gearing and interest cover

NAV gearing

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

Loan-to-value ratio

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

Net interest cover ratio

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

41 Significant accounting policies

Basis of consolidation

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

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

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

41 Significant accounting policies (continued)

Gross property income

Gross property income arises from two main sources:

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

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

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

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

Other income

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

Expenses

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

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

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

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

Employee benefits

(i) Share-based remuneration

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

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

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

(ii) Pensions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 Significant accounting policies (continued)

Financial assets

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

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

Financial liabilities

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

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

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

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

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

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

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

Deferred tax

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

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

Dividends

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

Foreign currency translation

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

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

FIVE-YEAR SUMMARY

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Income statement					
Gross property income	**138.4**	131.6	124.8	125.5	119.4
Net property income and other income	**136.1**	124.3	117.0	117.7	113.0
EPRA profit before tax	**62.3**	57.8	52.5	52.3	55.2
Profit on disposal of properties and investments	**30.2**	53.5	10.8	36.1	0.9
Profit before tax	**753.7**	467.9	228.1	233.0	352.8
Earnings and dividend per share					
EPRA earnings per share (p)	**57.08**	53.87	50.36	51.59	52.89
IFRS dividend (p)	**37.40**	34.50	31.85	29.60	27.60
Distribution of year's profit (p)	**39.65**	36.50	33.70	31.35	29.00
Net asset value					
Net assets	**3,075.7**	2,370.5	1,918.0	1,714.5	1,494.7
Net asset value per share (p) – undiluted	**2,931**	2,248	1,824	1,636	1,432
EPRA net asset value per share (p) – diluted	**2,908**	2,264	1,886	1,701	1,474
EPRA triple net asset value per share (p) – diluted	**2,800**	2,222	1,764	1,607	1,425
EPRA total return (%)	**30.1**	21.9	12.7	17.4	29.3
Property portfolio					
Property portfolio at fair value	**4,168.1**	3,353.1	2,859.6	2,646.5	2,426.1
Revaluation surplus	**671.9**	337.5	175.3	172.1	301.7
Cash flow statement					
Cash flow[1]	**(57.3)**	(65.9)	1.9	18.4	(171.6)
Net cash from operating activities	**65.6**	57.5	52.5	47.2	46.5
Acquisitions	**92.4**	130.1	99.8	91.6	148.0
Capital expenditure on properties	**113.2**	108.4	78.6	42.6	49.5
Disposals	**114.4**	149.7	161.0	131.5	8.5
Gearing and debt					
Net debt	**1,013.3**	949.2	874.8	864.5	887.8
NAV gearing (%)	**32.9**	40.0	45.6	50.4	59.4
Loan-to-value ratio (%)	**24.0**	28.0	30.0	32.0	35.7
Net interest cover ratio (%)	**286**	279	263	261	286

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

A list of definitions is provided on pages 172 to 174.

PRINCIPAL PROPERTIES

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Central (60%)				
Fitzrovia[1] (37%)				
1-2 Stephen Street & Tottenham Court Walk W1	150+	O/R/L	F	266,500[3]
132-142 Hampstead Road NW1	50-75	O	F	219,700
80 Charlotte Street W1	150+	O	F	200,000
8 Fitzroy Street W1	150+	O	F	147,900
Qube, 90 Whitfield Street W1	75-150	O/R/Re	F	109,900
The Copyright Building, 25-33 Berners Street W1	25-50	O	L	105,000[3]
Holden House, 54-68 Oxford Street W1	75-150	O/R	F	90,200
Henry Wood House, 3-7 Langham Place W1	50-75	O/R/L	L	79,900
Middlesex House, 34-42 Cleveland Street W1	50-75	O	F	65,700
Network Building, 95-100 Tottenham Court Road W1	50-75	O/R	F	64,100
120-134 Tottenham Court Road W1[2]	50-75	R/L	F	53,200
88-94 Tottenham Court Road W1	0-25	O/R	F	52,400
Charlotte Building, 17 Gresse Street W1	50-75	O	L	47,200
80-85 Tottenham Court Road W1	25-50	O/R	F	44,500
60 Whitfield Street W1	25-50	O	F	36,200
75 Wells Street W1	25-50	O/R	L	35,200
43 and 45-51 Whitfield Street W1	25-50	O	F	30,900
65 Whitfield Street W1	25-50	O	F	30,400
Rathbone Studios, 7-10 Rathbone Place W1	0-25	O/R/Re	L	23,100
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	20,300
73 Charlotte Street W1	0-25	O/Re	F	15,500[3]
76-78 Charlotte Street W1	0-25	O	F	11,000
Victoria (12%)				
Horseferry House, Horseferry Road SW1	75-150	O	F	162,700
Greencoat and Gordon House, Francis Street SW1	75-150	O	F	145,200
1 Page Street SW1	75-150	O	F	127,800
Premier House, 10 Greycoat Place SW1	25-50	O	F	62,000
Francis House, 11 Francis Street SW1	25-50	O	F	57,000
6-8 Greencoat Place SW1	25-50	O	F	33,200
Baker Street/Marylebone (4%)				
19-35 Baker Street W1	50-75	O/R	L	77,800
88-110 George Street W1	25-50	O/R/Re	L	44,800
30 Gloucester Place W1	0-25	O/Re	L	23,600
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	22,000
17-39 George Street W1	25-50	O/R/Re	L	21,400
Soho/Covent Garden (3%)				
Bush House, South West Wing, Strand WC2	0-25	O	F	107,900
Tower House, 10 Southampton Street WC2	50-75	O/R/Re	F	52,800
Davidson Building, 5 Southampton Street WC2	50-75	O/R	F	41,700
Mayfair (2%)				
25 Savile Row W1	75-150	O/R	F	42,000
Paddington (2%)				
55-65 North Wharf Road W2	50-75	O	L	77,600
Queens, 96-98 Bishop's Bridge Road W2	0-25	Re/R	F	21,400

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Borders (10%)				
Islington/Camden (9%)				
Angel Building, 407 St. John Street EC1	150+	O/R	F	262,000
Angel Square EC1	75-150	O	F	128,700
4 & 10 Pentonville Road N1	25-50	O	F	53,400
Balmoral Grove and 1-9 Market Road N7	0-25	O/I	F	48,900
423-425 Caledonian Road N7	0-25	O	F	18,300
401 St. John Street EC1	0-25	O	F	12,300
Ladbroke Grove (1%)				
Portobello Dock and Kensal House W10	0-25	O/R	F	51,600
City: Borders (28%)				
Clerkenwell (9%)				
88 Rosebery Avenue EC1	50-75	O	F	103,700
Morelands, 5-27 Old Street EC1	50-75	O/R	L	89,700
The Buckley Building, 49 Clerkenwell Green EC1	75-150	O /R	F	85,100
Turnmill, 63 Clerkenwell Road EC1	50-75	O/R	F	70,500[3]
19 Charterhouse Street EC1	25-50	O	F	63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	25-50	O	F	35,200
151 Rosebery Avenue EC1	0-25	O	F	24,000
3-4 Hardwick Street EC1	0-25	O	F	12,000
Holborn (7%)				
Johnson Building, 77 Hatton Garden EC1	75-150	O/R	F	157,100
40 Chancery Lane WC2	50-75	O/R	L	101,800[3]
22 Kingsway WC2	50-75	O	F	91,400[4]
6-7 St. Cross Street EC1	0-25	O	F	33,800
Old Street (6%)				
White Collar Factory, Old Street Yard EC1	75-150	O/R/Re	F	293,000[3]
1 Oliver's Yard EC1	75-150	O/R	F	185,900
Monmouth House, 58-64 City Road EC1	0-25	O	F	41,500
19-23 Featherstone Street EC1	0-25	O	F	27,500
Shoreditch/Whitechapel (5%)				
Tea Building, 56 Shoreditch High Street E1	150+	O/R/L	F	260,800
9 and 16 Prescot Street E1	25-50	O/R	F	107,300
Mark Square House, 1 Mark Square EC2	25-50	O	F	61,700
Southwark (1%)				
Wedge House, 30-40 Blackfriars Road SE1	0-25	O/L	F	38,700
Provincial (2%)				
Scotland (2%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-75	R	F	323,000
Land, Bishopbriggs, Glasgow	25-50	–	F	5,300 acres

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

Tech Belt (33%)

LIST OF DEFINITIONS

Average 'topped-up' rent
Annualised rents generated by the portfolio plus rent contracted from expiry of rent free periods and uplifts agreed at the balance sheet date.

Capital return
The annual valuation movement arising on the Group's portfolio expressed as a percentage return of 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. EPRA published its latest Best Practices Recommendations in December 2014 (www.epra.com/media/EPRA_Best_Practices_Recommendations_BPR_-_Dec2014_1418399386044.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- EPRA earnings per share
  Recurring earnings from core operational activities.
- EPRA net asset value per share
  NAV adjusted to include 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 movement
An accounting adjustment to change the book value of an asset or liability to its market value.

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

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

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

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

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

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 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 Government established REIT status in the UK in 2007 to remove tax inequalities between different real estate investors and aimed to improve overall investor access to real estate. REITs are companies which are exempt from corporate taxation on profits from property rental income and capital gains on the sale of investment properties.

REITs must distribute 90% of profits from their rental income business in the form of property income distributions (PIDs). This makes the tax implications of investing in REITs equivalent to investing directly in property. REITs are also required to meet certain conditions including the proportion of total profits and assets accounted for by their property rental businesses. They remain liable to corporation tax on non-property investment businesses e.g. management fees and interest receivable.

The UK has had a tax exempt real estate regime since 1 January 2007 and Derwent London has been a REIT since 1 July 2007.

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

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

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

Square foot/square metre
$1m^2$ = 10.7639 sq ft.
1 sq ft = $0.0929m^2$.

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

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 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 the 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, to 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.

LIST OF DEFINITIONS
CONTINUED

Sustainability and corporate responsibility

Automatic Meter Reading (AMR)
This is the technology of automatically collecting consumption, diagnostic, and status data from water or energy metering devices and transferring that data to a central database for billing, troubleshooting, or analysis purposes.

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions – Scopes 1, 2 and 3
Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)
This is the UK Government's mandatory scheme for carbon emissions reporting and allowance purchasing.

Chartered Institution of Building Services Engineers (CIBSE)
CIBSE promotes the career of building services engineers by accrediting courses of study in further and higher education. It publishes guidance and codes which are internationally recognised as authoritative, and sets the criteria for best practice in the profession.

Code for Sustainable Homes (CfSH)
An environmental assessment method for rating and certifying the performance of new homes. Performance is measured across a series of levels from 1 to 6.

CSR
Corporate and Social Responsibility.

Department for Environment, Food and Rural Affairs (Defra)
The Government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

Global Real Estate Sustainability Benchmark (GRESB)
The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Leadership in Energy and Environmental Design (LEED)
A US based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)
The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

Transmission and distribution (T&D)
The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Well to tank (WTT)
The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.

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