ANNUAL RESULTS 2013 ANNOUNCEMENT

# DERWENT LONDON PLC

DERWENT
LONDON

27 February 2014

**Derwent London plc ('Derwent London' / 'the Group')**

**Results for the year ended 31 December 2013**

**CONTINUED STRONG PERFORMANCE DELIVERS EXCELLENT RESULTS**

**Financial highlights**

| | 2013 | 2012 | Increase | Increase % |
|---|---|---|---|---|
| **Balance sheet metrics** | | | | |
| Net asset value | **£2.37bn** | £1.92bn | *£0.45bn* | ***23.6*** |
| EPRA NAV per share | **2,264p** | 1,886p | *378p* | ***20.0*** |
| EPRA NNNAV per share | **2,222p** | 1,764p | *458p* | ***26.0*** |
| Property portfolio | **£3.35bn** | £2.86bn | *£0.49bn* | ***17.3*** |
| Loan-to-value ratio | **28.0%** | 30.0% | | |
| **Income statement metrics** | | | | |
| Gross property income | **£131.6m** | £124.8m | *£6.8m* | ***5.4*** |
| EPRA profit before tax | **£57.8m** | £52.5m | *£5.3m* | ***10.1*** |
| EPRA earnings per share | **53.87p** | 50.36p | *3.51p* | ***7.0*** |
| Net interest cover | **279%** | 263% | | |
| Final dividend | **25.75p** | 23.75p | *2.0p* | ***8.4*** |
| Dividend for the year | **36.50p** | 33.70p | *2.8p* | ***8.3*** |
| Total return | **21.9%** | 12.7% | | |

**Excellent results**

- EPRA NAV per share up 20.0% to 2,264p
- Underlying valuation uplift of 12.6%
- Value of City borders properties rose 20.3% and West End properties 10.8% in 2013
- Development projects rose 25.1% in value
- EPRA profit before tax increased by 10.1% to £57.8m
- Final dividend raised by 8.4% to 25.75p, giving total dividend for the year of 36.50p

**Record year for lettings**

- Record new lettings of £21.8m pa (before deducting ground rent of £1.0m) on 643,200 sq ft (59,750m$^2$) at 8.4% premium to December 2012 ERV
- Pre-let of 155,600 sq ft (14,460m$^2$) at 40 Chancery Lane WC2 and Turnmill EC1 to Publicis Groupe for £7.8m pa net
- The Buckley Building EC1 let within six months of completion at rents over 30% ahead of original expectations

**Committed to development with extensive pipeline of future opportunities**

- Development activity accelerating:
  - 248,100 sq ft (23,050$m^2$) of major projects completed during 2013 and 100% let
  - 586,000 sq ft (54,450$m^2$) under construction, including White Collar Factory EC1
  - Further 1.0 million sq ft (94,000$m^2$) with planning permission
  - 0.9 million sq ft (84,000$m^2$) under active appraisal
- Total capital expenditure for next two years estimated at around £280m

**Highly reversionary portfolio**

- Low contracted office rents averaging £25.79 psf (£278 per $m^2$) rising to £32.65 psf (£351 per $m^2$) on a 'topped-up' basis
- Potential reversion of £71.0m (2012: £55.4m) giving a portfolio ERV of £197.0m at December 2013 (2012: £175.0m), an uplift of 56% on current passing rent

**Effective capital recycling**

- Acquired 216,800 sq ft (20,140$m^2$) of income-generating assets let off modest rents, in improving locations, for £130m
- £149.8m of disposals in the year generating a profit of £53.5m
- 1-5 Grosvenor Place SW1 sold for net proceeds of £131.4m, a 70% premium to December 2012 valuation

**Debt costs down and maturity increased**

- £800m of loans refinanced:
  - £150m of 1.125% convertible bonds due in 2019
  - £550m five-year unsecured revolving bank facility
  - £100m US private placement loan with average maturity of 18.75 years
- Proportion of unsecured debt increased from 20% to 63%
- Average debt maturity rose from 6.1 years to 6.3 years (7.7 years taking into account the £100m USPP loan in January 2014)
- Cash cost of debt at end of 2013 was 3.64% (2012: 4.63%) and on an IFRS basis was 4.10% (2012: 4.88%)

Robert Rayne, Chairman, commented:

*"Derwent London had an excellent 2013, delivering a net asset value increase of £453m, more than double that in 2012, and a total return of 21.9%. Letting and asset management initiatives over the last two years are being reflected in growing earnings and £800m of debt refinancing has further improved the resilience and flexibility of our strong balance sheet."*

John Burns, Chief Executive Officer, commented:

*"The demand for our brand of well-located, mid-market office space is strong and investor appetite for London's commercial real estate remains high. Against this background, we expect our rental values to rise by around 5% to 7% in 2014 and overall property yields to remain stable.*

*Whilst we continue to look ahead for any changes to the current favourable market environment, we are moving ahead with our expanding development pipeline. We have started construction of the White Collar Factory in the heart of the Tech Belt and expect to commence an additional major project in each of the next two years. Our portfolio contains a wealth of future opportunities supported by a strong financial base. Together these give us the capacity and flexibility to implement our plans with confidence."*

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**Notes to editors**

Derwent London plc owns a portfolio of commercial real estate predominantly in central London valued at £3.4bn as at 31 December 2013, making us the largest London-focused real estate investment trust (REIT).

We have a long track record of creating value throughout the property cycle by developing, refurbishing and managing our assets well. Our experienced team drives this sustained success.

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

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

Landmark schemes in our portfolio of 5.7 million sq ft (530,000m$^2$) as at 31 December 2013 include Angel Building EC1, The Buckley Building EC1, White Collar Factory EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In 2013 Derwent London topped the real estate sector for the fourth year in a row and came tenth overall in the Management Today awards for 'Britain's Most Admired Companies'. During the year the Group was also awarded EPRA Gold for corporate and sustainability reporting, two OAS awards and AJ Retrofit and NLA awards.

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

**CHAIRMAN'S STATEMENT**

In 2013 our consistent and successful strategy combined with buoyant markets to produce a very strong performance for the Group. We increased EPRA net asset value ('NAV') per share to 2,264p from 1,886p, a rise of 20.0% in the year. In addition EPRA profit before tax rose 10.1% despite a further acceleration in development activity during the year.

Over the last three years we have steadily expanded our development programme which has contributed to the 59% advance in our net asset value during this period. Over the same time our EPRA earnings have increased, we have raised our dividend by 26%, both gearing and cost of debt have been reduced and we have moved to a predominantly unsecured debt model.

Our overall aim is to deliver long-term total returns and during the year we made excellent progress in all five aspects of our business model that drive this objective:

<u>Optimising income</u>

The letting markets for our distinctive space were vibrant throughout 2013 and this has continued into 2014. We achieved record new lettings, on 643,200 sq ft (59,750m$^2$) achieving a gross rent of £21.8m pa, or £20.8m pa after deducting ground rents. On average these transactions were agreed at 8.4% above December 2012 estimated rental value ('ERV').

For Derwent London, it was also an outstanding year for pre-lets, dominated by Publicis Groupe agreeing to take 155,600 sq ft (14,460m$^2$) of offices at Turnmill EC1 and 40 Chancery Lane WC2 for a rent of £7.8m pa, allowing for the ground rent at Chancery Lane. Publicis Groupe will remain at our 80 Charlotte Street W1 property until these buildings are completed in the second half of 2014.

In addition we let the regenerated Buckley Building EC1 within six months of completion, at rents over 30% ahead of those in our original appraisals and to high quality tenants such as Deloitte, Unilever and WPP.

<u>Creating well-designed office space</u>

We have expanded our development pipeline to capitalise on the strong occupational market. In 2013 our capital expenditure was £103.0m, a 33% increase on 2012. Major projects totalling 248,100 sq ft (23,050m$^2$) were completed, and all were either pre-let or let within six months of completion.

The Group currently has 586,000 sq ft (54,450m$^2$) of major projects under construction, half of which is represented by the White Collar Factory EC1. We are on course to start a major development in each of the next two years, namely 80 Charlotte Street W1 in 2015 and 55-65 North Wharf Road W2 in 2016. There is substantial capital expenditure associated with our development programme, with around £280m forecast to be spent over the two years to the end of 2015.

In total we have 1.0 million sq ft (94,000m$^2$) of consented future development and another 0.9 million sq ft (84,000m$^2$) under active appraisal, all of which could be delivered by the end of the decade. This programme is comprised of a number of schemes at properties that remain income-producing and therefore gives us considerable flexibility in the timing of delivery.

<u>Recycling capital</u>

We constantly review the portfolio for opportunities to recycle capital. In July we sold our interest in 1-5 Grosvenor Place SW1 for £132.5m before costs, a 70% premium to the December 2012 valuation and contributing 14% of the overall NAV uplift in 2013. The price reflects the unique nature of the site and its value to a special purchaser. The sale achieved nearly all of the development gain that we expected to achieve, five to six years ahead of the earliest potential completion date and without exposure to the inherent risks of planning and development. The net proceeds of this and the other smaller sales we made in the year, which total £149.8m and generated a profit on disposal of £53.5m, make a significant contribution to financing our development pipeline and acquisitions.

Acquiring properties and unlocking their potential

During the year, we acquired an aggregate 216,800 sq ft (20,140m$^2$) of income-generating properties in emerging locations at a total cost of £130m (representing £601 psf or £6,469 per m$^2$). These transactions broadened our footprint in Shoreditch and Clerkenwell in the Tech Belt as well as in the Midtown village of Holborn. Our strategy of buying buildings off-market which are occupied and have the scope for improvement has provided an array of income-producing assets bought off reasonable yields. Each possesses regeneration opportunities in the medium to long term. We continue to look for properties meeting these criteria to add to the portfolio.

The redevelopment of 55-65 North Wharf Road W2 was enabled by the regearing of the headlease in early 2013 and we continue to examine opportunities where we can unlock further development potential at other locations.

Maintaining robust financing

Our overall net debt rose 8.5% to £949.2m but, due to the strong valuation performance of our portfolio, our loan-to-value ratio fell from 30.0% to 28.0% over the year. The Group's net interest cover remains a comfortable 279% at December 2013.

During the year we arranged £800m of new debt, all on an unsecured basis. We issued £150m of 1.125% convertible bonds due in 2019, arranged a new £550m five-year revolving bank facility and agreed a £100m long-term fixed rate US private placement loan which was drawn in January 2014.

The proportion of total facilities that are unsecured rose to 72% on a proforma basis, adjusting for the private placement that was drawn in early January, from 15% at the end of 2012. On the same basis the weighted average unexpired duration of debt increased to 7.7 years. At the year end we had undrawn facilities totalling almost £400m, including the private placement funds, giving us both the headroom to meet our committed capital expenditure requirements and the flexibility to consider further acquisitions.

**Financial performance and dividend**

The strong business performance in 2013 has been reflected in Derwent London's financial results. The Group's NAV increased by £452.5m during the year and EPRA NAV rose 20.0% to 2,264p per share, driven by the revaluation surplus which contributed 326p per share and 52p per share profit from the disposal of properties.

The valuation performance of the portfolio, with an underlying increase of 12.6%, outperformed that of the IPD Central London Offices Index which rose 11.2%. The valuation benefited from a 27 basis point tightening in true equivalent yield, 24 basis points of which were generated in the second half of 2013, together with a 5.7% underlying growth in ERV on average across the portfolio. This ERV growth was at the top of the 4-6% range we predicted at the beginning of 2013.

Despite a further acceleration in development activity during the year, we saw a 10% rise in recurring earnings, with EPRA profit before tax of £57.8m against £52.5m in the previous year. This reflects the significant progress made in generating incremental income from letting and asset management activity over recent years.

Given our current outlook, we are recommending a final dividend for the year of 25.75p, an increase of 8.4% on last year, to be paid on 13 June 2014 to shareholders on the register on 9 May 2014. Of this, 23.50p will be paid as a PID under the UK REIT regime and there will be a scrip alternative. This gives a total dividend for the year of 36.50p, which is 8.3% higher than in 2012 and is covered 1.5 times by EPRA profit.

**London – a leading global city**

London remains a magnet for business and investment. Employment in the capital has been increasing and with business confidence rising, it is expected to continue to do so. A recent report by Deloitte highlighted that London is the global city with the largest number of highly skilled employees: 1.5 million employed across 22 sectors. As a wide range of businesses compete for these skilled staff, offering well-designed space in which to work is one way to attract and retain talented people. Derwent London's brand of office space continues to demonstrate its appeal to such businesses.

The arc we call the Tech Belt, running north of the City from King's Cross to Whitechapel, is an increasingly important subsector of the London office market and 30% of our portfolio by value is now located in this area. It has proven the perfect habitat for the creative industries that have grown significantly in recent years and are now estimated by Tech City UK to employ 0.6 million people in London. In 2013 the area was responsible for 44% of our new letting income, mostly to established businesses wanting to tap into its vibrancy. This includes Unilever's product innovation unit which is now located in The Buckley Building. We believe the White Collar Factory project will consolidate the area's position as a centre of entrepreneurial excellence by providing suitable modern office space on a scale previously unavailable.

**Derwent London team**

To achieve these results we rely on the commitment and skill of our talented and experienced management team. It was gratifying to see that this was once again recognised externally in the 2013 Management Today awards for 'Britain's Most Admired Companies', where we topped the property sector for the fourth year in a row and were ranked tenth overall.

**The Board**

In August, we were pleased to welcome Richard Dakin to the Board as an independent non-executive director. Richard has been at Lloyds Bank since 1982 and his extensive knowledge of property finance and the real estate sector will enable him to make a valuable contribution to the Board.

At the end of the year, John Ivey, who was Chairman of the Company until 2007, retired from the Board. Following the merger with London Merchant Securities, John has served as Deputy Chairman. His wise counsel and valued contribution, which has been much appreciated by the Board over his many years as a non-executive director, will be missed.

**Outlook**

The prospects for London's commercial property market are good, with above average levels of both occupier and investment demand from a wide range of sources. As a result we expect our rental values to rise by around 5% to 7% in 2014 and overall property yields to remain stable, though in some of our markets yields may tighten even further. The strength of our capital city is very apparent, attracting businesses and people from around the world. London is a global leader in a diverse range of high-skill sectors and growth here continues to outpace other parts of the UK as well as nearly all of the rest of Europe.

London office values have been steadily rising for over four years, and with strong occupier demand and the prospects of continued rental growth, yields are now down to levels last seen at the previous peak in 2007. Circumstances today are different: business confidence is improving so the prospects for letting with rising rents are excellent. At the same time, income returns from other asset classes remain constrained which, together with the rental outlook, are stimulating very high investment demand for real estate in the capital. Although the current market environment is favourable, we will continue to monitor conditions to anticipate changes and maintain our long-term principles of buying where we can add value and selling those assets where growth prospects are lower.

In 2014 we have commenced the White Collar Factory development and will shortly be starting on the regeneration and expansion of the retail space on Tottenham Court Road W1 to form Tottenham Court Walk. We expect to complete a further 277,500 sq ft (25,790$m^2$) of major projects in the year, namely the next phase of the 1-2 Stephen Street office refurbishment, Turnmill, 40 Chancery Lane and our Queens residential scheme.

Our long-term business model has put us in a strong position with 71% of the portfolio in the resilient West End market. In addition 80% of the portfolio is either in the Tech Belt or close to Crossrail, both seeing above average growth. Our income stream continues to be based off low average office rents of £25.79 psf (£278 per $m^2$) and is highly reversionary. Under our largest development programme to date we will be ready to start a 200,000-400,000 sq ft (20,000-35,000$m^2$) project in each of the next three years. Our financing remains resilient, but is now even more flexible, of longer duration and at a lower cost, giving us the capacity to fund our developments and make new acquisitions.

We enter 2014 strongly positioned to take advantage of the current buoyant market conditions and to deliver above average returns to shareholders.

Robert A. Rayne
27 February 2014

## OUR MARKET

### See Appendix 1 for supporting graphs

London is one of a few truly global cities: a position that has strengthened in the last few years. It is the UK's largest single economic market and is enjoying relatively strong growth. The impact is clearly positive on our London villages where there has been strong occupier take-up and high levels of investment activity. This has been reflected in rising rents, falling yields and continuing outperformance against the rest of the UK.

Economic growth has also seen a change in occupiers' aspirations as they balance the most efficient use of space with an attractive working environment. The relative strength of some new digital/creative industries has triggered a 'war for talent', and the workplace has become one of its arenas. This has reinforced the trend of demand spreading beyond the traditional core to some border areas, and an increasing interest in flexible buildings which allow tenants to be more creative and reflect the company brand in their office surroundings. Derwent London's focus on improving London villages and design-led development means we are well-placed in this regard.

### Improving economic backdrop

London leads a broader UK recovery. The UK's economic outlook steadily improved during 2013, with GDP growing by 1.9%. The UK base rate remained unchanged at 0.5%, but gilt yields have been rising with the prospects of an end to Quantitative Easing as the UK economy improves. Unemployment continues to fall, and was 7.2% of the workforce in December 2013, yet CPI inflation was also lower, falling from 2.7% to 2.0% over the course of the year.

The outlook is for increasing growth as the recovery takes hold. The Bank of England expects UK GDP growth of 3.4% in 2014. The London economy is expected to continue to outperform the rest of the UK, benefiting from its international links and as the preferred centre for many of the new growth industries. Oxford Economics estimate that London's average GDP growth will be 3.1% pa over the next five years, which compares to average projected UK growth of 2.3% pa over the same period.

A recent study from Deloitte found that London employed 1.5 million people in 22 high-skill, knowledge-based sectors. Its nearest rival is New York with 1.2 million working in the same industries. The study found that London led other cities in 12 out of these 22 chosen sectors (New York led in seven). The fact that London is seen as 'a crucible for creativity and commerce' helps to support its favourable outlook.

### Flourishing central London office occupier market

The provision of desirable office space is a key part of central London's economic success story. It is also our focus. Total office stock is estimated at 221 million sq ft (20.5 million $m^2$) of which 49% is located in the City, 42% in the West End and 9% in Docklands. This basic division hides a dynamic trend of the last few years, which is the growth of new office neighbourhoods on the borders of these traditional zones driven by young businesses and improving infrastructure.

Last year we highlighted the growing attractions of a less well-established office district running in an arc from King's Cross to Whitechapel including Clerkenwell, Old Street, and Shoreditch. We labelled it the 'Tech Belt', and this has rapidly become an established subsector. We estimate that the office stock in this thriving mixed-use area is c.24 million sq ft (2.2 million $m^2$) or 11% of central London's total. It is also where Amazon, Google, and Publicis committed to major lettings during 2013. We have just started our next major development, the White Collar Factory, next to Silicon Roundabout in the heart of this area. Recent research from Tech City UK estimated that the tech/digital sector created new jobs 2.7 times faster than other London industries in the period 2009-12, and that in 2012 the total London workforce in this sector was 0.6 million people.

Tech Belt and TMT/creative demand stand out, but we are also seeing demand from a variety of other sectors across London. We stressed earlier London's diversity and broad base. Improving business confidence has benefitted most central London office markets and many businesses. CBRE is reporting good rental growth in the West End core where prime rents are up 8.1% pa to £100.00 psf (£1,076 per $m^2$). In Fitzrovia and Victoria, where half our portfolio is located, prime rents are up 12.5% pa to £67.50 psf (£727 per $m^2$), and 12.0% pa to £70.00 psf (£753 per $m^2$) respectively. The City of London core is also seeing growth with prime rents up 4.5% pa to £57.50 psf (£619 per $m^2$).

CBRE central London office take-up rose 39% last year to an estimated 13.6 million sq ft (1.26 million $m^2$), of which 30% was in the West End. TMT take-up comprised 33% of the total, followed by Banking and Finance which made up 18% and Business Services at 13%. There was still strong active demand for 8.4 million sq ft (0.78 million $m^2$) of central London office space at the year end, which was 24% higher than the previous year (according to Jones Lang LaSalle). It is estimated that 32% of this derived from the TMT sector and 20% from each of the professional services and financial services sectors.

Some of last year's central London take-up was met by developments, which supplied 3.5 million sq ft (325,000$m^2$) of new space, of which 1.3 million sq ft (121,000$m^2$) was in the West End, and 1.1 million sq ft (102,000$m^2$) in the City. West End delivery is running marginally above trend and these levels are expected to be maintained over the next four years. City delivery was slightly below trend in 2013, but is expected to pick up in 2014.

In the short-term, central London office vacancy levels are still falling (5.1% to 4.7% in 2013) and we expect our portfolio ERVs to rise by around 5% to 7% in 2014. The positive economic outlook and increased business confidence should see letting demand strengthen further to absorb the expected levels of new supply, auguring well for the foreseeable future.

**Thriving central London office investment market**

Our guidance last year was for London office yields to remain broadly stable. It was correct for most of the year, but in the last few months yields have tightened significantly. This reflected strong demand in the last quarter, which saw London annual transaction volumes jump to £19.4bn. These levels are even ahead of those in 2007, with the major difference being that equity is financing the bulk of the demand. Overseas investors continue to dominate, representing 68% of the total with increasing demand from Asia. Continental European investment has remained a significant component notwithstanding the improving Eurozone outlook. More recently there are signs of increased bank debt availability for commercial property.

These high levels of demand explain why prime office yields hardened by 25 basis points in the West End to 3.75%, and by 50 basis points in the City to 4.50% during 2013.

Current demand has spread broadly across central London, which has benefitted some emerging locations such as those within the Tech Belt. Crossrail has also had a positive impact ahead of its opening in 2018. 80% of our portfolio is located either in the Tech Belt or close to a Crossrail station.

Central London office market values have also been supported by the high values of alternative use. Both central London residential (capital values +11.2% in 2013 according to the Land Registry) and retail (capital values +13.5% according to IPD) continue to be strong.

Rising rents should protect current property yields from the likely further rise in gilt yields in the next twelve months. We expect property yields to be stable, and may even tighten in some markets, while the rental outlook is good and inflation stays low.

**VALUATION**

**See Appendix 2 for supporting graphs and tables**

A buoyant letting market, rental growth and record investment turnover provided favourable conditions for central London commercial property values to rise during 2013. It was in this environment that the Group's investment portfolio was valued at £3.35bn at 31 December 2013. There was a valuation surplus of £352.5m before accounting adjustments of £15.0m (see note 13), giving a total reported movement of £337.5m.

The underlying valuation increase for 2013 was 12.6%, outperforming the 7.3% achieved in 2012. During the year we achieved an outstanding gain on the disposal of 1-5 Grosvenor Place SW1 for £132.5m before costs. If this building had been retained and revalued at the sale price, the portfolio's underlying increase would have been 13.9%. On both bases the portfolio outperformed the IPD Index for Central London offices in 2013 which increased by 11.2%, and the wider market, the IPD All Property Index, which rose by 4.3%.

Within the investment portfolio, we are undertaking a number of major projects. At the beginning of 2013, these comprised four developments (The Buckley Building, 1 Page Street, Turnmill and 40 Chancery Lane), and two major refurbishments (1-2 Stephen Street Phases 1 and 2 and Morelands Buildings' rooftop extension). During the year, two residential projects were added, namely Queens and 73 Charlotte Street, and recently we started our White Collar Factory office-led project. In total, these nine assets were valued at £588.6m at 31 December 2013 and delivered a strong 25.1% increase in value as development surpluses were recognised. Excluding these projects, the underlying performance was 10.1%.

With The Buckley Building, 1 Page Street and Morelands Buildings now complete, we are on site at six projects. These are valued at £369.4m and represent 11% of the portfolio.

Our estimated rental values continue to move forward, and have now been on a steady upward trend for four years. On an underlying basis, they rose by 5.7% during 2013, and followed a 6.7% increase in 2012. This was at the top end of our prior year guidance of 4-6%.

Our central London properties comprise 97% of the portfolio and saw a 13.0% valuation uplift. Within this, the West End was up 10.8% and the City borders 20.3%, the latter reflecting the strong demand for space, especially from the TMT sector, and development surpluses. The balance of the portfolio at 3%, our Scottish holdings, saw a marginal increase of 0.3%.

On an EPRA basis, the portfolio's net initial yield at year end was 4.2% which rises to 4.8% on a 'topped-up' basis, following contractual uplifts and expiry of rent free periods. The true equivalent yield was 5.28%, a 27 basis points tightening from the 5.55% at the beginning of the year. The majority of the yield tightening came in the second half at 24 basis points, compared to 3 basis points in the first half, as the already buoyant investor appetite for central London property noticeably increased towards the end of the year.

Our annualised net contracted rental income was £126.0m at the year end. The portfolio is highly reversionary through contracted rental uplifts, market reviews and income from letting available space and current projects. The portfolio ERV was £197.0m giving a potential £71.0m reversion, representing a 56% uplift. Of this, £30.2m is from contracted rental uplifts, including expiry of rent free periods and future income from pre-let space at our projects on site. The latter totals £7.8m (net), from the letting to Publicis Groupe at Turnmill and 40 Chancery Lane. A further £23.2m of potential reversion could be captured through letting space, principally our current development programme. The balance of the reversion, at £17.6m, is from future rent reviews and lease renewals.

The portfolio's total property return was 18.5% for 2013, compared to 11.6% in 2012. The IPD Total Return Index was 15.8% for Central London Offices and 10.5% for All UK Property.

## PORTFOLIO MANAGEMENT

**See Appendix 3 for supporting graphs and tables**

Last year was an exceptional one for our letting activity, demonstrating the attractions of our brand of office space and improving business confidence. It set a record for pre-lettings (see Appendix 3), and, as a result, we have very little space currently available.

In total we let 643,200 sq ft (59,750m$^2$) during the year achieving a gross annual rent of £21.8m pa, before deduction of £1.0m pa ground rent, and at an average rent 8.4% above December 2012 ERV. At 31 December 2012 this space generated rental income of £3.9m pa. Open market transactions represented 97% of the total by income and were secured 10.9% above December 2012 ERV.

Our letting activity was led by the TMT sector's growth, which represented 72% of our take-up by income. We believe that this represents a strong endorsement of our product which anticipated the demand from the new and growing London industries. The table below lists our major transactions.

**Principal lettings in 2013**

| Property | Tenant | Area sq ft (m$^2$) | Rent £ psf (£ per m$^2$) | Total annual rent £m | Minimum uplift at 1st review £ psf (£ per m$^2$) | Lease term Years | Lease break Year | Rent free equivalent Months |
|---|---|---|---|---|---|---|---|---|
| **Q1** | | | | | | | | |
| 132-142 Hampstead Road NW1 | UCL | 217,000 (20,160) | 7.15 (77) | 1.6 | 8.25 (89) | 10 | 5 | 15 |
| Greencoat House SW1 | VCCP | 10,600 (980) | 47.50 (511) | 0.5 | - | 7 | 4 / 4 / 0 3 units | 15 |
| **Q2** | | | | | | | | |
| 40 Chancery Lane WC2* | Publicis Groupe | 97,400 (9,050) | 65.00** (700) | 5.7 (gross) | 67.50* (727) | 20 | 18 | 32 |
| Turnmill EC1* | Publicis Groupe | 58,200 (5,410) | 55.00 (592) | 3.1 | 57.50 (619) | 20 | 18 | 32 |
| The Buckley Building EC1 | Hill+Knowlton (WPP) | 26,400 (2,450) | 52.50# (565) | 1.3 | - | 15 | 12 | 24 |
| Charlotte Building W1 | CHI&Partners | 12,400 (1,150) | 60.00 (646) | 0.7 | - | 5 | - | 12 |
| **Q3** | | | | | | | | |
| The Buckley Building EC1 | Tipp24 | 16,100 (1,500) | 52.50 (565) | 0.8 | 55.00 (592) | 15 | 12 | 20 |
| Charlotte Building W1 | Turley Associates | 7,200 (670) | 65.00 (700) | 0.5 | - | 12 | - | 26 |
| **Q4** | | | | | | | | |
| The Buckley Building EC1 | Deloitte Digital | 16,600 (1,540) | 57.50 (619) | 1.0 | 59.50 (640) | 15 | 6 | 7, plus 10 if no break |
| 1 Oliver's Yard EC2 | Morningstar | 13,100 (1,220) | 42.50 (457) | 0.6 | 45.00 (484) | 7 | 4 | 9 |
| 4 Hardwick Street EC1 | Ve Interactive | 12,000 (1,110) | 45.00 (484) | 0.5 | 47.50 (511) | 10 | - | 12 |
| Tower House, WC2 | Global Personals | 4,200 (390) | 70.00 (753) | 0.3 | 72.50 (780) | 12 | 6 | 9, plus 6 if no break |

* Pre-let. Leases commence on completion of construction (due Q3 2014 for Turnmill and Q4 2014 for 40 Chancery Lane)

** Typical floor

# Top floor

Our most significant pre-lettings were the office elements at Turnmill EC1 and 40 Chancery Lane WC2 to Publicis Groupe. Together these comprised £8.8m pa of income (£7.8m pa after allowing for the ground rent on Chancery Lane). We were very pleased to maintain a long-standing relationship with a strong business that had been looking for a new London headquarters for some time. To facilitate the deal, Publicis Groupe subsidiary Saatchi & Saatchi extended its lease on a short-term basis at 80 Charlotte Street W1 to tie in with the delivery of its new buildings. Rents of £55 psf at Turnmill and £65 psf at Chancery Lane were achieved on the new space, 16% and 7% respectively above the December 2012 ERVs. The transaction underpins the increasing attractions of Clerkenwell/Holborn and our development programme to media businesses.

Another clear example of this trend was the multi-letting of The Buckley Building, also in Clerkenwell. This building was 25% pre-let on completion in April 2013, and fully let within six months to a further four tenants. We agreed rents of over 30% in excess of our original estimates with the final letting achieving £57.50 psf. Elsewhere, we established new rental levels at Charlotte Building (£65 psf) and Tower House (£70 psf), and we were pleased to let 132-142 Hampstead Road quickly, which, as discussed last year, has been blighted by the uncertainty surrounding HS2.

Separately, at the end of 2013 and coincident with a rent review, we extended our tenant's long leasehold interest on the Grafton Hotel, 130 Tottenham Court Road W1 from 77 to 150 years. This has seen our income rise 56% to £0.9m pa. The new rent will increase by 3% pa, compounded every five years, and is subject to an open market rent review in 2033, at which time the tenant will also have an option to break. The lease restructure led to a valuation increase of 22% in 2013.

During 2013 £20.0m of rent (or 17% of our annual rent roll) was subject to breaks or expiries. The largest single expiry (21% of the exposed income) was at 80 Charlotte Street W1, which was deferred until the completion of Publicis' new offices at Turnmill and 40 Chancery Lane. The deferral helped create an above average level of retentions (74%), and we successfully re-let 14%, which means that only 12% of 2013 breaks and expiries were vacant at the year end. In 2013 the Group concluded 82 rent reviews and lease renewals on 471,200 sq ft (43,770m$^2$) at a combined rent of £15.2m pa, which represented an uplift of 7.1% on the previous income. Average rent collection remained prompt throughout the year with 98% received within 14 days of the due date (99% in December).

Following completion of The Buckley Building, our EPRA vacancy rate of available space rose from 1.6% at the start of 2013 to 2.7%, but our successful letting campaigns have seen the vacancy rate fall steadily to only 1.0%. As the chart (Appendix 3) shows this is a very low level on a historical basis. If adjusted for the expected completions in 2014, the vacancy rate would rise to 5.4%. Since the year end we have let 27,600 sq ft (2,560m$^2$) generating rental income of £1.1m pa.

The strong performance of our letting and management teams in 2013 has resulted in there being little space immediately available in our portfolio. The focus during 2014 will be on letting Phase 2 at 1-2 Stephen Street, and, towards the end of the year, residential sales. We give more details under Projects below.

**PROJECTS**

**See Appendix 4 for supporting graphs and tables**

Development is central to the way we add value through planning, winning space and regeneration. We are taking advantage of market conditions to raise our activity levels with one major scheme started in 2014 and one more due to start in each of the next two years. We estimate that 55% of our portfolio is either currently under construction, or earmarked for refurbishment or redevelopment. Major projects where we are currently on site represent approximately 10% of the portfolio.

During 2013 we completed 248,100 sq ft (23,050m$^2$) of major projects, all of which are fully let and generated a profit on cost of 39%. We are on site with 586,000 sq ft (54,450m$^2$), which is 27% pre-let. The five new developments underway are expected to achieve a profit on cost of 34%. In addition, there is the phased refurbishment at 1-2 Stephen Street W1 where we will soon start a 40,000 sq ft (3,720m$^2$) retail project to be called Tottenham Court Walk. The first three phases of the 1-2 Stephen Street regeneration are expected to generate a profit on cost of 30%.

The major project at 80 Charlotte Street W1 in Fitzrovia is due to start in 2015, and we are on course to commence 55-65 North Wharf Road W2, opposite a Paddington Crossrail entrance, in 2016. In total we have 1.0 million sq ft (94,000m$^2$) of consented future development space with active appraisals which could deliver a further 0.9 million sq ft (84,000m$^2$).

We show our 2013 completions in the table below. In aggregate these projects have added £10.9m to our rent roll (or 5.5% of ERV). The most significant project was 1 Page Street SW1, which was pre-let in 2012 and completed in July 2013. We have now created two neighbouring buildings let to Burberry which, in aggregate, comprise 290,000 sq ft (26,900m$^2$) and will generate rental income of c.£11m pa. The Buckley Building was completed in April and was fully let within 6 months.

In addition we completed 297,300 sq ft (27,620m$^2$) of minor refurbishments, 217,000 sq ft (20,160m$^2$) of which related to 132-142 Hampstead Road NW1.

**Major project pipeline**

| Property | Area sq ft | Area $m^2$ | Comment |
|---|---|---|---|
| **Projects completed in 2013** | | | |
| 1 Page Street SW1 | 127,000 | 11,800 | Let to Burberry at £5.3m pa |
| The Buckley Building, 49 Clerkenwell Green EC1 | 85,000 | 7,900 | Multi-let at £4.2m pa |
| 1-2 Stephen Street W1 (Phase 1) | 18,300 | 1,700 | Let to BrandOpus at £0.8m pa |
| Morelands Buildings (roof scheme), 5-27 Old Street EC1 | 17,800 | 1,650 | Let to AHMM at £0.6m pa |
| | **248,100** | **23,050** | **100% let** |
| **Projects on site**[1] | | | |
| Developments | | | |
| White Collar Factory, Old Street EC1 | 293,000 | 27,220 | Office-led development<br>Completion due Q3 2016 |
| 40 Chancery Lane WC2 | 101,800 | 9,460 | Offices and retail<br>Completion due Q4 2014. 96% pre-let |
| Turnmill, 63 Clerkenwell Road EC1 | 70,500 | 6,550 | Offices and retail<br>Completion due Q3 2014. 83% pre-let |
| Queens, 96-98 Bishop's Bridge Road W2 | 21,400 | 1,990 | Residential and retail<br>Completion due Q4 2014 |
| 73 Charlotte Street W1 | 15,500 | 1,440 | Residential and offices<br>Completion due Q3 2015 |
| Phased scheme | | | |
| 1-2 Stephen Street W1 (Phase 2) | 83,800 | 7,790 | Offices<br>Completion due Q2 2014 |
| | **586,000** | **54,450** | **27% pre-let** |
| **Projects about to commence**[1] | | | |
| Tottenham Court Walk, 18-30 Tottenham Court Road W1 | 40,000 | 3,720 | Retail, Part 1-2 Stephen Street (Phase 3) |
| | **40,000** | **3,720** | |
| **Major planning consents**[1] | | | |
| 80 Charlotte Street W1 | 380,000 | 35,300 | Offices and residential |
| 55-65 North Wharf Road W2 | 240,000 | 22,300 | Offices |
| 1 Oxford Street W1 [2] | 275,000 | 25,500 | Offices, retail and theatre |
| Wedge House, 30-40 Blackfriars Road SE1 | 80,000 | 7,400 | Offices |
| | **975,000** | **90,500** | |

**Notes**

[1] Proposed area

[2] Crossrail option site

Our six current projects divide into three groups:

New office buildings

The first is creating new office buildings. The recently started White Collar Factory EC1 represents half the current programme's floorspace. This is one of our most innovative projects to date totalling 293,000 sq ft (27,220m$^2$). It comprises a 16-storey office tower (237,000 sq ft / 22,020m$^2$) surrounded at its base by a new open space and a campus comprising 39,000 sq ft (3,620m$^2$) offices, 9,000 sq ft (840m$^2$) retail and 8,000 sq ft (740m$^2$) residential. The project incorporates our latest thinking on office design, which we trialled during the year via our 3,000 sq ft (280m$^2$) live suite created on the site. In Q3 2016 we expect to deliver property capable of matching the evolving occupier demands in the very heart of the Tech Belt overlooking Silicon Roundabout. Having refined the specification of this project we estimate that the future capital expenditure here is around £121m, and the overall ERV is £14m pa.

This group also includes the two major and predominantly pre-let schemes at 40 Chancery Lane WC2 and Turnmill EC1. The latter is also in the Tech Belt. Together these comprise 172,300 sq ft (16,010m$^2$) where the office element has been pre-let to Publicis Groupe. The Group's share of the pre-let office income is £7.8m pa. The retail elements of these projects, 12,300 sq ft (1,140m$^2$) at Turnmill and 4,400 sq ft (410m$^2$) at Chancery Lane, will be marketed during 2014 (ERV £0.5m pa). Both these projects are due to be completed in H2 2014 with further capital expenditure estimated at £36m.

Phased refurbishment

The second group is the phased refurbishment at 1-2 Stephen Street W1. We completed Phase 1 (18,300 sq ft / 1,700m$^2$ pre-let to BrandOpus at £52.50 psf / £565 per m$^2$ on the ground floor) in November 2013. This phase has also included remodelling the entrance area and the addition of street level exterior improvements. In the second half we secured the surrender of a lease on the top two floors (16,100 sq ft / 1,500m$^2$) of 1 Stephen Street which takes the current amount of office space under refurbishment to 83,800 sq ft (7,790m$^2$). We will soon start Phase 3, the part extension and part refurbishment of the Tottenham Court Road retail frontage now called Tottenham Court Walk. In total we estimate these phases to have an ERV of over £8m, and will require c.£21m of future capital expenditure.

Residential projects

The final category is represented by two residential projects. Queens is in Westbourne Grove, Paddington W2 and comprises 16 private flats and 2,700 sq ft (250m$^2$) retail. 73 Charlotte Street W1 is in Fitzrovia and includes nine private flats, two affordable flats and 1,900 sq ft (180m$^2$) offices. The additional capital expenditure to complete these two projects is estimated at £19m and we intend to sell the flats on completion in Q4 2014 and Q2 2015, respectively.

**Smaller projects**

We have a number of smaller scale refurbishments underway at properties such as Tea Building E1 and 1 Oliver's Yard EC2. These minor refurbishments totalled 51,000 sq ft (4,740m$^2$) at the year end.

**Construction costs**

Our expected construction costs have risen in 2013 through a mixture of market forces and design enhancements. So far these rising costs have been more than matched by rental growth. £185m of our current capital expenditure programme is now largely fixed, but, looking ahead, we expect construction costs to increase further. This is now much more of a risk than in the recent past. Our experienced in-house team aims to mitigate the rising costs through our long-term relationships with contractors, and detailed knowledge of the supply chain. Where possible, we also look to agree terms on contracts early on in the development process.

**Future developments**

Beyond the current year we are well set to start one major project in both 2015 and 2016. Together 80 Charlotte Street W1 and 55-65 North Wharf Road W2 represent 620,000 sq ft (57,600m$^2$) of development, could produce c.£34m of rent pa, and are expected to require c.£260m of future capital expenditure. In addition we are working on a number of new projects where leases expire in the next few years. These include 9 Prescot Street E1, 25 & 29 Berners Street W1 and Monmouth House EC1 which together could represent another c.290,000 sq ft (26,900m$^2$) of development activity starting in the same time frame.

## INVESTMENT ACTIVITY

Our acquisitions have continued at a steady pace in the last four years against the background of an increasingly competitive market. During the year we spent £130m on three properties producing rents of £6.2m on an initial yield of 4.8%. The total space acquired was 216,800 sq ft (20,140m$^2$), excluding The Peacock Theatre at 22 Kingsway which is let on a peppercorn rent. The average rent was below £29 psf and the average lease length to first break was over six years. Disposals (£150m) raised 15% more than acquisitions, but produced under half the income (1.9% initial yield), and represented only 56% of the floorspace. The average acquisition price was £601 psf (£6,469 per m$^2$), which compares to the average selling price of £1,225 psf (£13,186 per m$^2$).

**Acquisitions – acquiring properties and unlocking their value**

| | Area | Total cost | | Net yield | Rental income | Rent | Lease length* |
|---|---|---|---|---|---|---|---|
| | sq ft | £m | £ psf | % | £m pa | £ psf / per m$^2$ | yrs |
| Mark Square House EC2 | 61,700 | 29.6 | 479 | 5.1 | 1.5 | 24.25/261 | 4.0 |
| 19 Charterhouse Street EC1** | 63,700 | 41.3 | 648 | 4.1 | 1.7 | 26.50/285 | 6.1 |
| 22 Kingsway WC2 | 91,400 | 59.3 | 649 | 5.1 | 3.0 | 32.80/353 | 7.3 |
| **Total#** | **216,800** | **130.2** | **601** | **4.8** | **6.2** | **28.53/307** | **6.2** |

* to first break or expiry, as at 31 December 2013
** includes rent top-up of £0.3m pa (£0.4m in total)
# excludes £0.5m reduction in acquisition cost of 25 & 29 Berners Street, purchased in 2012

In the first half of 2013 we acquired Mark Square House EC2, an island site in the Tech Belt, almost equidistant between our holdings at Old Street and the Tea Building. The building offers good reversionary potential and there is scope to add around another 8,000 sq ft (740m$^2$/13%). The property is let to Thomson Reuters, who are also tenants in two other Derwent London properties, occupying an aggregate of 149,500 sq ft (13,890m$^2$), and paying £4.4m pa of rent.

In the second half we acquired a six-storey office building at 19 Charterhouse Street EC1. The property is situated opposite the Farringdon Crossrail station, due to open in 2018, and is let to the London College of Accountancy until 2025 with a tenant's break in 2020. The current income is £1.4m pa, but there is a top-up to £1.7m pa until the next review in 2015. The rent at the next review is capped at £1.7m pa. We believe that the property has considerable potential given the low average rent, and its location at the centre of one of the areas expected to benefit most from Crossrail, as well as being in the Tech Belt.

In December we acquired 22 Kingsway WC2 in Holborn close to our long-dated reversionary interest at Bush House WC2. Both properties benefit from the recent improvements to Covent Garden and the surrounding area. The properties also benefit from being near to significant University of London holdings: adjacent to the London School of Economics and close to King's College on the Strand. The eight-storey property is let to King's College London on a lease expiring in 2025. The passing rent is reversionary, and the next rent review is in 2015. The acquisition also includes The Peacock Theatre (44,000 sq ft / 4,090m$^2$ gross internal area), which is let to the London School of Economics for £1 pa on a lease expiring in 2054.

We have acquired three well-located and large-sized blocks in off-market transactions, which offer significant scope for regeneration. It is worth noting that none of these properties currently has ground floor retail. This provides a potential opportunity as they are all located in prominent positions in improving areas.

**Disposals – recycling capital**

Principal disposals

| | Area | Net proceeds | | Net yield | Rental income | Rent | Lease length |
|---|---|---|---|---|---|---|---|
| | sq ft | £m | £ psf | % | £m pa | £ psf / per $m^2$ | yrs |
| Commercial Road E1 | 36,000 | 16.7 | 459 | - | 0.1 | n/a | - |
| 1-5 Grosvenor Place SW1* | 84,400 | 131.4 | 1,556 | 2.1 | 2.7 | 32.20/ 347 | 2.0 |
| **Total**** | **120,400** | **148.1** | **1,225** | **1.9** | **2.8** | | **-** |

* our share

** excludes proceeds of £1.7m from minor disposals

Last year our disposal activity was dominated by the £131.4m sale in July of our interest in 1-5 Grosvenor Place SW1 to Peninsula Hotels. Although this prime island site represented a major potential development opportunity, we believe that the consideration secured most of the anticipated redevelopment gain even before planning had been applied for and, therefore, five to six years before the project's expected completion date.

The sale secured a profit of £53m (a 70% uplift on the December 2012 valuation) and followed the restructuring of our leasehold interest with the Grosvenor Estate (the freeholder) in the previous year. Over the last two years our actions have crystallised c.£200m from an interest that was valued at only £134m in December 2011. Our total return from when we first acquired an interest in the block in 1993 is 15.3% pa, which compares to the average 9.0% pa return the IPD Central London office index reported over the same period.

Last year's other disposals included the sale of our properties on Commercial Road E1, where we had secured planning for student accommodation and Suffolk House, 1 Whitfield Place W1 which was sold as part of our affordable housing contribution for a number of our Fitzrovia projects.

We continue to look to buy income-producing assets with low capital values, let off low rents and with medium-term refurbishment opportunities. At the same time, we are considering the sale of some of our smaller assets, properties where we have completed our regeneration plans or those which we believe are fully valued.

**FINANCE REVIEW**

**See Appendix 5 for supporting graphs and tables**

Derwent London benefitted from a particularly strong performance across all aspects of its financial focus during 2013.

With the support of a buoyant occupational market and fierce competition from investors for London's highly-prized stock of real estate, the Group experienced rapid growth in net asset value and one of our highest property valuation increases in recent years. We were also able to grow earnings significantly, further improve our interest cover and maintain modest gearing while investing substantially more in the portfolio than in the prior year. In addition, we entered into three refinancing transactions totalling £800m which combined to move us decisively to a predominantly unsecured debt structure. This enabled the release of fixed charges over much of our property portfolio which will improve operational and financial flexibility. The refinancing also extended the average duration of our debt to 7.7 years and significantly reduced the average cost.

Much has been written about the UK's renewed confidence and the economic growth that emerged in 2013 but London's recovery started far earlier. That has certainly been reflected in our own results over the last year but the recent strength of London's commercial property market is also very evident from the transformation of our financial position over the last five years:

| | **2013** | 2012 | *Increase %* | 2008 | *Five-year increase %* |
|---|---|---|---|---|---|
| NAV per share | **2,264p** | 1,886p | *20.0* | 1,222p | *85.3* |
| NNNAV per share | **2,222p** | 1,764p | *26.0* | 1,206p | *84.2* |
| Property portfolio at fair value | **£3,353.1m** | £2,859.6m | *17.3* | £2,108.0m | *59.1* |
| Gross property income | **£131.6m** | £124.8m | *5.4* | £119.0m | *10.6* |
| EPRA profit before tax | **£57.8m** | £52.5m | *10.1* | £22.2m | *160.4* |
| Profit/(loss) before tax | **£467.9m** | £228.1m | *105.1* | (£606.5m) | *n/a* |
| Dividend per share | **36.50p** | 33.70p | *8.3* | 24.50p | *49.0* |
| NAV gearing | **40.0%** | 45.6% | *n/a* | 71.2% | *n/a* |
| Gross interest cover ratio | **363%** | 351% | *n/a* | 247% | *n/a* |

*See Appendix 5 for five-year graph*

**Net asset value and total return**

The final quarter of 2013 saw yields on our central London commercial properties driven down significantly, due in part to exceptional investor demand and expectations of continued rental growth. Together with development profits from our projects and strong underlying rental value growth across the portfolio, this helped to provide a £452.5m increase in NAV for the Group over the 12 months to 31 December 2013. This is more than double the NAV increase in 2012 which was, itself, a strong year.

EPRA net asset value per share increased by 20.0% during 2013 to 2,264p per share from 1,886p a year earlier. The revaluation surplus and profits from the sale of investment properties together account for 378p with other items approximately netting out to nil.

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

| | **2013** | 2012 |
|---|---|---|
| | **p** | p |
| Revaluation surplus | **326** | 170 |
| Profit on disposals | **52** | 7 |
| EPRA profit after tax | **54** | 50 |
| Dividends paid (net of scrip) | **(30)** | (30) |
| Equity portion relating to issue of convertible bonds 2019 | **12** | - |
| Interest rate swap termination costs | **(13)** | (7) |
| Dilutive effect of convertible bonds 2016 | **(10)** | - |
| Minority interest | **(7)** | (5) |
| Other | **(6)** | - |
| | **378** | 185 |

*See Appendix 5 for NAV 'bridge' graph*

The EPRA NAV and NAV per share are 'diluted' measures and therefore take account of the exercise of share options and long-term share incentives as well as the conversion of convertible bonds where these reduce the NAV per share. As the NAV per share is now higher than the conversion price of the convertible bonds maturing in 2016 of 2,222p, the dilutive impact of this, equating to 10p per share in 2013, has been included in the calculation of EPRA NAV per share for the first time. Of this, 4p is due to the conversion into shares at a price below the NAV per share and 6p is due to the early write-off of the unamortised part of the bond's equity component; the latter amount will normally amortise up to the maturity date of the bonds in July 2016 unless the bonds are converted into equity at an earlier date.

A detailed reconciliation of the Group net asset value to the EPRA NAV is shown in note 12 to the financial statements.

The improved prospects for the UK economy have brought forward the prospect of UK interest rate rises. Although there has been some retrenchment so far this year, this had a beneficial impact on the mark-to-market cost of our interest rate derivatives which fell to 16p per share from 53p in 2012. This reduction was also helped by the unwinding or re-couponing of £190m of interest rate swaps at a cost of 13p per share following the issue of our second convertible bond in July 2013. The equity component of these 2019 convertible bonds recognised at issue was 12p per share, roughly equivalent to the cost of the swaps terminated. The fair value of fixed rate bond liabilities also fell to £15.2m from £58.0m in 2012 and these combined to bring the Group's EPRA triple NAV per share to 2,222p at 31 December 2013, an increase of 26.0% over the year. Note that the EPRA triple NAV now also deducts unamortised loan arrangement costs and fees.

**Income statement**

As well as adding value to our portfolio in 2013, we have also seen a solid improvement in recurring earnings, evidencing the letting and asset management progress made in recent years. EPRA profit before tax was £57.8m, up by over 10% from the £52.5m comparative figure in 2012. EPRA earnings per share were also up to 53.9p from 50.4p a year earlier. In addition, including the fair value uplift in property and derivative values and the profits on disposal of our properties, the overall Group IFRS profit before tax was £467.9m, more than double that of 2012.

Gross property income increased by 5.4% to £131.6m for the year ended 31 December 2013 from £124.8m in 2012. Income from new lettings and rent reviews totalled £11.8m through 2012 and 2013 with a further £4.1m from properties acquired. These more than compensated for the £3.2m of income lost on disposals and £6.5m on voids, expiries and lease breaks. Net property and other income rose 6.2% to £124.3m from £117.0m last year. Of this, £121.7m was net rental income, 6.7% higher than in 2012.

*See Appendix 5 for income and EPRA profit 'bridge' graphs*

The real progress in underlying rental income levels across the portfolio can be demonstrated by the increase in like-for-like property income where the effects of acquisitions, disposals and developments are taken out. EPRA gross rental income increased by 3.6% during the year on a like-for-like basis. A full analysis is shown in the table in Appendix 5.

The cost of running our team has increased in line with activity levels. The Group administration charge for the year rose by 6.4% to £26.7m; this increase is largely due to higher salary, bonus and incentive payments to our staff and management team, the levels of which rose by £1.5m over the year.

We have included the new EPRA cost ratio figures this year for the first time. The total ratio of overheads and irrecoverable property costs to rental income was 25.1% in 2013 and 25.2% in 2012. Our high degree of development and refurbishment activity adds considerably to the Group's overhead; from our own estimates, this activity represents approximately one third of our total staff costs, so it is arguably unrepresentative to measure running costs against rental income alone. We are therefore also showing the ratio of overheads and irrecoverable property costs to the property portfolio fair value which results in a ratio of 1.0% in 2013 and 1.1% in 2012. Note also that it is our policy not to capitalise development overheads, all of which are expensed in the year.

| | **2013** | 2012 |
|---|---|---|
| | **%** | % |
| EPRA cost ratio, including direct vacancy costs | **25.1** | 25.2 |
| EPRA cost ratio, excluding direct vacancy cost | **22.6** | 21.1 |
| Portfolio cost ratio, including direct vacancy costs | **1.0** | 1.1 |

The exceptional uplifts from revaluation gains during the year and profits from the sale of investment properties contributed £393.1m compared with £182.2m in 2012. In total they have provided much of our IFRS profit and net asset growth in 2013.

As part of the refinancing in 2013, £3.2m of unamortised issue costs were written off when the old loans were repaid but this is not taken into account in deriving the EPRA profit before tax. Excluding this amount, net finance costs were almost unchanged compared to the previous year. Borrowings were higher and average borrowing costs were lower in 2013 and the impact of our refinancing on the cost of debt is explained in more detail below.

The total cost of breaking or re-couponing swaps in the year was £13.7m, most of which was judged to coincide with the equity uplift arising on our second convertible bond issue. The increase in interest rate expectations referred to above led to a significant unwinding of the cost associated with 'fair valuing' our other interest rate swaps. This gave a fair value uplift of £38.5m in 2013 compared to a £2.4m deficit in 2012.

## Taxation

Our REIT status significantly reduces the taxation costs of the Group but brings with it a responsibility to our stakeholders and to HMRC to operate within certain rules. We do not generally pay tax on our property business income and gains provided we distribute nearly all of the taxable profits every year and withhold tax on those distributions. In 2013, £4.2m of tax was withheld from shareholders on such distributions and paid to HMRC.

The Group does pay corporation tax on certain income and gains such as those from non REIT-elected companies, trading income, interest and fees. The 2013 tax charge relating to this part of the business was £1.0m, comprising a current year tax charge of £0.8m and a prior year tax charge of £0.2m. The tax charge was primarily due to the unelected share in our joint venture with the Portman Estate which is outside the REIT regime. In addition, during the year there was an increase in the Group's deferred tax liability in relation to revaluation gains outside the REIT amounting to £1.4m.

Following resolution of a long-standing matter in relation to the REIT conversion charge that we paid in 2007, we have been able to utilise £0.6m of a prior year provision of £1.0m and release the balance to the income statement with no additional tax charge.

## Maintaining robust financing

During the course of 2013, we arranged £800m of new facilities, all of which are unsecured. By removing the fixed charges that were required under our previous secured funding arrangements, we have improved our financial and operational flexibility and reduced future transaction costs. We also set ourselves the task of obtaining some more medium and long-term fixed rate debt as our judgement was that interest rates were likely to rise further. In addition, we wanted to reduce the overall cost of our debt. The planning for this substantial programme of change commenced in late 2012 and execution was all carried out in the second half of 2013 to take advantage of favourable conditions in the financial markets.

The first step was taken in July when the Group issued £150m of convertible bonds. We believe this form of financing can be particularly attractive to companies with shares trading at a substantial premium to net asset value, which was the case for Derwent London. There was considerable demand for new issuance in mid-year and we sought to take advantage of this with our second convertible bond. These bonds have a six-year maturity and therefore fall due in 2019, three years after our first issue of convertible bonds, which mature in 2016. This second issue is not eligible for conversion into equity within the first three years which avoids the possibility of both bonds converting at the same time. The conversion price was set at £33.35, a 62% premium to the EPRA net asset value at the end of June 2013 and 35% above the share price at launch. The cash coupon settled at 1.125%, a reflection of the very strong level of demand. The IFRS coupon, which flows through the income statement, is 2.67%. The bonds are share settled and are therefore accounted for by splitting their equity and debt components, giving rise to an equity uplift of £12m, net of costs, during the year. Taking advantage of this, we subsequently paid £13m to break, defer and re-coupon £190m of existing interest rate swaps, which has further reduced the weighted average cost of our debt. Note that there remain two additional swaps with deferred start dates which will become active during 2014 unless we opt to delay them further. The first is at just under 2.00% on a principal amount of £65m and the other is at 3.99% on £70m.

The second step was the rearrangement of a large part of our bank facilities. In September, we completed and started to draw down a new £550m unsecured five-year revolving credit facility, replacing £650m of secured bank facilities that were due to expire between April 2014 and January 2017. The new facility was provided by our principal relationship lending banks with HSBC as agent. The margin payable under the new facility is 160 basis points over LIBOR for net asset gearing levels of up to 50%, increasing at higher levels of NAV gearing with a maximum permitted level of 160%. The release of security on the facilities repaid increased the Group's pool of unencumbered assets and, at the end of the year, the value of uncharged properties totalled £2,144m or 64% of the portfolio valuation. As noted above, unamortised arrangement costs of £3.2m were written off in the second half of the year in relation to the secured facilities repaid.

The last piece of refinancing was designed to tap the liquid US private placement market to provide some attractively priced long-term debt for the Group. Terms were signed in November 2013 with New York Life for an unsecured loan of £100m: £25m for 15 years at a fixed rate of 4.41% and £75m for 20 years at a fixed rate of 4.68%. The financial covenants are identical to the new bank facility; the net asset gearing covenant of 160% provides substantial headroom when measured against the Group's NAV gearing level of 40.0% as at 31 December 2013. We agreed a deferral of initial drawing at no cost and the funds were drawn in January 2014 and used to repay revolving bank facilities, thereby increasing the level of available facilities to almost £400m. Of our total £1,351m of facilities, 72% is now on an unsecured basis compared with only 15% in December 2012.

*See Appendix 5 for table of loan facilities, maturity profile graphs and debt summary*

The refinancing carried out in 2013 means that the proportion of non-bank facilities increased to 47% at 31 December 2013 from 36% a year earlier. Taking account of the £100m of fixed rate debt drawn in January 2014 increases this to 51%. We have also seen a substantial reduction in our weighted average interest rate. At the end of 2013, the spot rate fell to 3.64% on a cash basis from 4.63% a year earlier and to 4.10% on an IFRS basis from 4.88% in December 2012. Most of the reduction was seen in the last quarter of the year with an average cash rate of 4.44% for the first nine months of the year and 3.65% in the last quarter of the year. The average unexpired duration of our debt has also been increased; this was 6.3 years at the end of December 2013 increasing to 7.7 years on a proforma basis taking account of the funding drawn in the first week of January. The equivalent figure in December 2012 was 6.1 years.

**Net debt and cash flow**

Net debt increased during the year to £949.2m from £874.8m as we continue to build out our pipeline of projects. Total capital expenditure for the year was 31% higher than in 2012 at £107.8m including £4.8m of capitalised interest. We have been able to sell well in these markets and raised £149.8m after costs from the disposal of properties, mainly at Commercial Road and the 50% holding at Grosvenor Place. The latter was sold in July 2013 for £132.5m before costs, a 70% premium to the December 2012 book value. We have bought selectively through the year, identifying properties with reasonable yields off modest capital values and future potential to add value. The cash outflow on new properties acquired including 19 Charterhouse Street, Mark Square House and 22 Kingsway was £130.1m or 87% of the proceeds derived from asset sales.

The overall property value increases referred to above meant that the Group's loan to value ('LTV') ratio fell to 28.0% at the year end from 30.0% in 2012. Net asset value gearing fell correspondingly to 40.0% from 45.6%. We are comfortable with these levels which give us considerable resilience in relation to our financial covenants. As our property values have now risen by about 81% from their low point in mid-2009, we would naturally expect the LTV ratio to be lower today than in some recent years. Our focus on sustaining interest cover through the cycle has also helped us to grow gross cover to 363% from 351% in 2012. From now on, and in accordance with the covenant definitions within our new unsecured funding arrangements, we will be reporting net interest cover. This is calculated after irrecoverable costs and adding back capitalised interest; it increased to 279% in 2013 from 263% in 2012.

*See Appendix 5 for reconciliation of net debt*

**Dividend**

Our distribution policy remains unchanged: to maintain good dividend cover out of recurring earnings while also providing a progressive and sustainable level of growth for our shareholders. The Board has therefore recommended an 8.4% increase in the proposed final dividend to 25.75p per share of which 23.50p will be paid as a PID with the balance of 2.25p as a conventional dividend. The total dividend for the year is 36.50p per share, an increase of 2.80p or 8.3% over 2012. The scrip dividend alternative remains popular and so, as in recent years, it will again be offered.

**Financial prospects**

We started 2014 in a robust financial position and have seen continued strong demand for our properties from tenants and investors alike. We expect to invest about £140m in our projects in 2014 with a similar level of expenditure in 2015. With almost £400m of undrawn facilities and low gearing, we are well-placed to fund this programme. We will be considering further capital recycling from selective property sales while maintaining a healthy balance of interest and dividend cover – disciplines that Derwent London has long believed in.

Our substantially hedged financing position will help to shelter us from the impact of interest rate rises over the next few years and our low gearing should enable us to absorb any cyclical value adjustments without a significant impact upon our business planning. Our flexible business model and income-producing pipeline are major advantages in this respect. Whilst financial risks remain, particularly in relation to construction cost inflation and future upward yield shift, rental growth is strong in our markets and yields are expected to remain firm for some time.

To summarise, pursuing our strategy with an intelligent approach to risk management should enable us to deliver long-term outperformance for our shareholders whilst helping to upgrade London's built environment for other stakeholders.

**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, as adopted by the European Union (IFRS) 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;
- 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 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 whole, together with a description of the principal risks and uncertainties that they face.

The Director 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 | Damian M.A. Wisniewski |
| Chief Executive Officer | Finance Director |
| 27 February 2014 | |

## GROUP INCOME STATEMENT

| | Note | **2013 £m** | 2012 £m |
|---|---|---|---|
| Gross property and other income | 5 | **160.5** | 150.6 |
| Net property and other income | 5 | **124.3** | 117.0 |
| Administrative expenses | | **(26.4)** | (24.5) |
| Movement in valuation of cash-settled share options | | **(0.3)** | (0.6) |
| Total administrative expenses | | **(26.7)** | (25.1) |
| Revaluation surplus | 13 | **335.6** | 174.4 |
| Profit on disposal of investment property | 6 | **53.5** | 6.9 |
| Profit on disposal of investment | 7 | **-** | 3.9 |
| Profit from operations | | **486.7** | 277.1 |
| Finance income | 8 | **0.2** | 0.4 |
| Finance costs | | **(41.4)** | (41.2) |
| Loan arrangement costs written off | | **(3.2)** | - |
| Total finance costs | 8 | **(44.6)** | (41.2) |
| Movement in fair value of derivative financial instruments | | **38.5** | (2.4) |
| Financial derivative termination costs | 9 | **(13.7)** | (6.9) |
| Share of results of joint ventures | 10 | **0.8** | 1.1 |
| Profit before tax | | **467.9** | 228.1 |
| Tax (charge)/credit | 11 | **(2.4)** | 4.6 |
| Profit for the year | | **465.5** | 232.7 |
| Attributable to: | | | |
| - Equity shareholders | | **456.6** | 226.9 |
| - Minority interest | | **8.9** | 5.8 |
| | | **465.5** | 232.7 |
| Earnings per share | 12 | **446.40p** | 222.76p |
| Diluted earnings per share | 12 | **412.72p** | 211.82p |

**GROUP STATEMENT OF COMPREHENSIVE INCOME**

| | Note | £m | £m |
|---|---|---|---|
| Profit for the year | | **465.5** | 232.7 |
| Actuarial gains on defined benefit pension scheme | | **-** | 1.2 |
| Revaluation surplus of owner-occupied property | 13 | **1.9** | 0.9 |
| Deferred tax on revaluation surplus | 20 | **(0.1)** | 0.3 |
| Items that will not be reclassified to profit or loss | | **1.8** | 2.4 |
| Foreign currency translation | 8 | **-** | (0.3) |
| Reclassification of exchange differences to income statement | 7 | **-** | (3.9) |
| Items that may be reclassified subsequently to profit or loss | | **-** | (4.2) |
| Other comprehensive income/(expense) | | **1.8** | (1.8) |
| Total comprehensive income relating to the year | | **467.3** | 230.9 |
| Attributable to: | | | |
| - Equity shareholders | | **458.4** | 225.1 |
| - Minority interest | | **8.9** | 5.8 |
| | | **467.3** | 230.9 |

**GROUP BALANCE SHEET**

| | Note | **2013 £m** | 2012 £m |
|---|---|---|---|
| Non-current assets | | | |
| Investment property | 13 | **3,242.9** | 2,772.6 |
| Property, plant and equipment | 14 | **22.2** | 20.3 |
| Investments | | **5.1** | 10.2 |
| Deferred tax | 20 | **-** | 0.5 |
| Pension scheme surplus | | **0.8** | 0.2 |
| Other receivables | 15 | **72.1** | 60.9 |
| | | **3,343.1** | 2,864.7 |
| Current assets | | | |
| Trading property | 13 | **22.6** | - |
| Trade and other receivables | 16 | **53.5** | 50.8 |
| Cash and cash equivalents | 24 | **12.5** | 4.4 |
| | | **88.6** | 55.2 |
| Non-current assets held for sale | 17 | **4.8** | 16.5 |
| Total assets | | **3,436.5** | 2,936.4 |
| Current liabilities | | | |
| Trade and other payables | 18 | **83.6** | 80.5 |
| Corporation tax liability | | **1.4** | 1.9 |
| Provisions | | **1.7** | 1.7 |
| | | **86.7** | 84.1 |
| Non-current liabilities | | | |
| Borrowings | 19 | **961.7** | 879.2 |
| Derivative financial instruments | 19 | **15.9** | 54.3 |
| Provisions | | **0.7** | 0.8 |
| Deferred tax | 20 | **1.0** | - |
| | | **979.3** | 934.3 |
| Total liabilities | | **1,066.0** | 1,018.4 |
| Total net assets | | **2,370.5** | 1,918.0 |
| Equity | | | |
| Share capital | | **5.0** | 5.0 |
| Share premium | | **170.4** | 165.3 |
| Other reserves | | **948.6** | 934.0 |
| Retained earnings | | **1,180.0** | 756.1 |
| Equity shareholders' funds | | **2,304.0** | 1,860.4 |
| Minority interest | | **66.5** | 57.6 |
| Total equity | | **2,370.5** | 1,918.0 |

**GROUP STATEMENT OF CHANGES IN EQUITY**

| | Attributable to equity shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m | Minority interest £m | Total equity £m |
| 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** |

| | Attributable to equity shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m | Minority interest £m | Total equity £m |
| At 1 January 2012 | 5.0 | 162.9 | 936.6 | 558.2 | 1,662.7 | 51.8 | 1,714.5 |
| Profit for the year | - | - | - | 226.9 | 226.9 | 5.8 | 232.7 |
| Other comprehensive income | - | - | (3.0) | 1.2 | (1.8) | - | (1.8) |
| Share-based payments | - | 0.4 | 0.4 | 2.3 | 3.1 | - | 3.1 |
| Dividends paid | - | - | - | (30.5) | (30.5) | - | (30.5) |
| Scrip dividends | - | 2.0 | - | (2.0) | - | - | - |
| At 31 December 2012 | 5.0 | 165.3 | 934.0 | 756.1 | 1,860.4 | 57.6 | 1,918.0 |

**GROUP CASH FLOW STATEMENT**

| | Note | **2013 £m** | 2012 £m |
|---|---|---|---|
| Operating activities | | | |
| Property income | | **123.3** | 118.1 |
| Property expenses | | **(9.1)** | (9.9) |
| Cash paid to and on behalf of employees | | **(19.0)** | (17.8) |
| Other administrative expenses | | **(4.9)** | (4.3) |
| Interest received | | **0.2** | 0.1 |
| Interest paid | 8 | **(32.3)** | (33.3) |
| Other finance costs | | **(3.4)** | (3.4) |
| Other income | | **2.8** | 2.5 |
| Distributions received from joint ventures | | **1.2** | 0.7 |
| Tax paid in respect of operating activities | | **(1.3)** | (0.2) |
| Net cash from operating activities | | **57.5** | 52.5 |
| Investing activities | | | |
| Acquisition of investment properties | | **(130.1)** | (99.8) |
| Capital expenditure on the property portfolio | 8 | **(108.4)** | (78.6) |
| Disposal of investment properties | | **149.7** | 161.0 |
| Purchase of property, plant and equipment | | **(0.4)** | (0.4) |
| Advances to minority interest holder | | **(2.5)** | (2.4) |
| REIT conversion charge | | **(0.6)** | - |
| Net cash used in investing activities | | **(92.3)** | (20.2) |
| Financing activities | | | |
| Net proceeds of bond issue | | **146.2** | - |
| Repayment of revolving bank loan | | **(274.5)** | (123.0) |
| Drawdown of new revolving bank loan | | **280.6** | 73.0 |
| Net movement in other revolving bank loans | | **-** | 133.5 |
| Repayment of non-revolving bank loans | | **(65.0)** | (158.5) |
| Drawdown of non-revolving loan | | **-** | 81.6 |
| Repayment of loan notes | | **-** | (1.1) |
| Financial derivative termination costs | | **(13.7)** | (6.9) |
| Net proceeds of share issues | | **0.4** | 0.4 |
| Dividends paid | 21 | **(31.1)** | (30.4) |
| Net cash from/(used in) financing activities | | **42.9** | (31.4) |
| Increase in cash and cash equivalents in the year | | **8.1** | 0.9 |
| Cash and cash equivalents at the beginning of the year | | **4.4** | 3.5 |
| Cash and cash equivalents at the end of the year | 24 | **12.5** | 4.4 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2013 or the year ended 31 December 2012, but is derived from those accounts. The Group's statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2012 and 2013 accounts were unqualified, did not draw attention to any matters by way of an emphasis and did not contain any statement under Section 498 of the Companies Act 2006.

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

### 2. Changes in accounting policies

The accounting policies used are consistent with those applied in the 2012 annual financial statements, 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 are effective for the first time for the Group's 31 December 2013 year end:

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

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

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

IFRS 9 Financial Instruments;
IFRS 12 Disclosure of Interests in Other Entities;
IAS 19 (amended) – Defined Benefit Plans - Employee Contributions;
IAS 27 (revised) – Separate Financial Statements;
IAS 28 (revised) – Investments in Associates and Joint Ventures;
IAS 32 (amended) – Offsetting Financial Assets and Financial Liabilities;
IAS 36 (amended) – Recoverable Amounts Disclosures for Non-Financial Assets;
IAS 39 (amended) – Novation of Derivatives and Continuation of Hedge Accounting;
Annual Improvements to IFRSs (2010 - 2012 Cycle); and
Annual Improvements to IFRSs (2011 - 2013 Cycle).

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

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

### 3. Significant judgments, key assumptions and estimates

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

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

A full explanation of these policies and their application will be included in the 2013 financial statements.

### 4. Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is 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 12. Additionally, information is provided to the Executive Committee showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property, assets held for sale and trading property and comprised 93% office buildings* by value (2012: 93%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 7% (2012: 7%) represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

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

All of the Group's properties are based in the UK. The Group also has a joint venture in Prague which represents 0.1% of the Group's assets, is in the process of being sold and is excluded from this analysis. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the strategic report.

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

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

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

**Property portfolio**

**Carrying value**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Office buildings £m | Other £m | **Total £m** | Office buildings £m | Other £m | Total £m |
| West End central | 1,923.9 | 120.7 | **2,044.6** | 1,782.9 | 86.1 | 1,869.0 |
| West End borders | 270.3 | 13.1 | **283.4** | 244.5 | 9.9 | 254.4 |
| City borders | 863.4 | 4.6 | **868.0** | 590.2 | 4.5 | 594.7 |
| Provincial | - | 89.2 | **89.2** | - | 88.9 | 88.9 |
| | 3,057.6 | 227.6 | **3,285.2** | 2,617.6 | 189.4 | 2,807.0 |

**Fair value**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Office buildings £m | Other £m | **Total £m** | Office buildings £m | Other £m | Total £m |
| West End central | 1,953.0 | 123.5 | **2,076.5** | 1,806.4 | 86.2 | 1,892.6 |
| West End borders | 289.9 | 13.1 | **303.0** | 259.7 | 9.9 | 269.6 |
| City borders | 875.3 | 4.6 | **879.9** | 599.4 | 4.5 | 603.9 |
| Provincial | - | 93.7 | **93.7** | - | 93.5 | 93.5 |
| | 3,118.2 | 234.9 | **3,353.1** | 2,665.5 | 194.1 | 2,859.6 |

A reconciliation between the fair value and carrying value of the portfolio is set out in note 13.

**5. Property and other income**

| | **2013 £m** | 2012 £m |
|---|---|---|
| Gross rental income | **130.9** | 124.7 |
| Surrender premiums received | **1.6** | 0.3 |
| Write-off of associated rents previously recognised in advance | **(0.9)** | (0.2) |
| | **0.7** | 0.1 |
| Gross property income | **131.6** | 124.8 |
| Service charge income | **26.9** | 23.3 |
| Other income | **2.0** | 2.5 |
| Gross property and other income | **160.5** | 150.6 |
| Gross rental income | **130.9** | 124.7 |
| Ground rent | **(0.4)** | (0.5) |
| Service charge income | **26.9** | 23.3 |
| Service charge expenses | **(28.8)** | (24.8) |
| | **(1.9)** | (1.5) |
| Other property costs | **(6.9)** | (8.6) |
| Net rental income | **121.7** | 114.1 |
| Other income | **2.0** | 2.5 |
| Net surrender premiums received | **0.7** | 0.1 |
| Reverse surrender premiums | **(0.2)** | (0.2) |
| Dilapidation receipts | **0.1** | 0.5 |
| Net property and other income | **124.3** | 117.0 |

Included within rental income is £2.3m (2012: £2.5m) of income 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 £5.6m (2012: £8.2m) relating to rents recognised in advance of the cash receipts.

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

## 6. Profit on disposal of investment property

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

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

## 7. Profit on disposal of investment

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

**8. Finance income and costs**

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

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

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

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

**9. Financial derivative termination costs**

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

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

**10. Share of results of joint ventures**

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

**11. Tax charge/(credit)**

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

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

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

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

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

**12. EPRA performance measures**

**Number of shares**

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

The £175m unsecured convertible bonds 2016 (“2016 bonds”) and £150m unsecured convertible bonds 2019 (“2019 bonds”) have initial conversion prices set at £22.22 and £33.35, respectively. The dilutive effect of these shares is required to be recognised in accordance with IAS 33 Earnings per Share. The shares are not recognised in the calculations if they are anti-dilutive.

For 2013 and 2012, the shares created by the conversion of the 2016 bonds are dilutive for unadjusted earnings per share but anti-dilutive for EPRA and underlying earnings per share. They are dilutive for NAV and EPRA NAV per share in 2013 but anti-dilutive for all NAV measures in 2012. For consistency purposes, the Group has adopted the same approach for dilution due to convertible bonds for the calculation of EPRA triple NAV per share as EPRA NAV per share.

For 2013, the shares created by the conversion of the 2019 bonds, issued in 2013, are dilutive for unadjusted earnings per share but anti-dilutive for EPRA and underlying earnings per share and all net assets measures.

**Profit before tax, earnings and earnings per share**

| | Profit before tax £m | Earnings £m | Earnings per share p | Diluted earnings per share p |
|---|---|---|---|---|
| Diluted earnings for year ended 31 December 2013 | | 464.8 | | 412.72 |
| Interest effect of dilutive convertible bonds | | (8.2) | | |
| Undiluted profit/earnings | 467.9 | 456.6 | 446.40 | |
| Adjustment for: | | | | |
| Disposal of properties | (53.5) | (53.5) | | |
| Group revaluation surplus | (335.6) | (334.3) | | |
| Joint venture revaluation deficit | 0.3 | 0.3 | | |
| Fair value movement in derivative financial instruments | (38.5) | (38.5) | | |
| Financial derivative termination costs | 13.7 | 13.7 | | |
| Loan arrangement costs written off | 3.2 | 3.2 | | |
| Movement in valuation of cash-settled share options | 0.3 | 0.3 | | |
| Minority interests in respect of the above | - | 7.3 | | |
| **EPRA and underlying** | **57.8** | **55.1** | **53.87** | **53.61** |

| | | | | |
|---|---|---|---|---|
| Diluted earnings for year ended 31 December 2012 | | 233.5 | | 211.82 |
| Interest effect of dilutive convertible bonds | | (6.6) | | |
| Undiluted profit/earnings | 228.1 | 226.9 | 222.76 | |
| Adjustment for: | | | | |
| Disposal of properties | (6.9) | (6.9) | | |
| Disposal of investment | (3.9) | (3.9) | | |
| Group revaluation surplus | (174.4) | (178.8) | | |
| Joint venture revaluation surplus | (0.3) | (0.3) | | |
| Fair value movement in derivative financial instruments | 2.4 | 2.4 | | |
| Financial derivative termination costs | 6.9 | 6.9 | | |
| Movement in valuation of cash-settled share options | 0.6 | 0.6 | | |
| Minority interests in respect of the above | - | 4.4 | | |
| EPRA | 52.5 | 51.3 | 50.36 | 50.12 |
| Foreign exchange gain | (0.3) | (0.3) | | |
| Rates credits | (0.3) | (0.3) | | |
| Underlying | 51.9 | 50.7 | 49.77 | 49.53 |

**Net asset value and net asset value per share**

| | £m | Undiluted p | Diluted p |
|---|---|---|---|
| **At 31 December 2013** | | | |
| Net assets attributable to equity shareholders - diluted | 2,471.7 | | 2,230 |
| Remove conversion of 2.75% unsecured convertible bonds 2016 | (167.7) | | |
| Net assets attributable to equity shareholders - undiluted | 2,304.0 | 2,248 | |
| Adjustment for: | | | |
| Revaluation of trading properties | 2.1 | | |
| Deferred tax on revaluation surplus | 5.5 | | |
| Fair value of derivative financial instruments | 15.9 | | |
| Fair value adjustment to secured bonds | 16.9 | | |
| Minority interest in respect of the above | (2.2) | | |
| EPRA net asset value - undiluted | 2,342.2 | 2,286 | |
| Adjustment for: | | | |
| Potential conversion of 2.75% unsecured convertible bonds 2016 | 167.7 | | |
| **EPRA net asset value - diluted** | **2,509.9** | | **2,264** |
| Adjustment for: | | | |
| Deferred tax on revaluation surplus | (5.5) | | |
| Fair value of derivative financial instruments | (15.9) | | |
| Mark-to-market of 1.125% unsecured convertible bonds 2019 | 0.1 | | |
| Mark-to-market of secured bonds | (24.0) | | |
| Mark-to-market of fixed rate secured loan | 8.7 | | |
| Unamortised issue and arrangement costs | (12.3) | | |
| Minority interest in respect of the above | 2.2 | | |
| **EPRA triple net asset value - diluted** | **2,463.2** | | **2,222** |
| 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 | |

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

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

**Cost ratio**

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

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

| | | |
|---|---|---|
| Property portfolio at fair value (D) | **3,353.1** | 2,859.6 |
| Portfolio cost ratio (A/D) | **1.0%** | 1.1% |

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

**13. 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 |
|---|---|---|---|---|---|---|---|
| Carrying value | | | | | | | |
| At 1 January 2013 | 2,296.6 | 476.0 | 2,772.6 | 17.9 | 16.5 | - | 2,807.0 |
| Acquisitions | 129.8 | (0.5) | 129.3 | - | - | - | 129.3 |
| Capital expenditure | 81.0 | 18.0 | 99.0 | - | - | 4.0 | 103.0 |
| Interest capitalisation | 3.8 | 0.9 | 4.7 | - | - | 0.1 | 4.8 |
| Additions | 214.6 | 18.4 | 233.0 | - | - | 4.1 | 237.1 |
| Disposals | (0.6) | (79.3) | (79.9) | - | (16.5) | - | (96.4) |
| Depreciation | - | - | - | (0.1) | - | - | (0.1) |
| Transfers | (18.5) | - | (18.5) | - | - | 18.5 | - |
| Revaluation | 281.1 | 54.5 | 335.6 | 1.9 | - | - | 337.5 |
| Movement in grossing up of headlease liabilities | - | 0.1 | 0.1 | - | - | - | 0.1 |
| **At 31 December 2013** | **2,773.2** | **469.7** | **3,242.9** | **19.7** | **-** | **22.6** | **3,285.2** |
| At 1 January 2012 | 2,068.9 | 376.0 | 2,444.9 | 17.1 | 137.5 | - | 2,599.5 |
| Acquisitions | 57.1 | 44.4 | 101.5 | - | - | - | 101.5 |
| Capital expenditure | 63.9 | 13.2 | 77.1 | - | 0.4 | - | 77.5 |
| Interest capitalisation | 4.2 | 0.7 | 4.9 | - | - | - | 4.9 |
| Additions | 125.2 | 58.3 | 183.5 | - | 0.4 | - | 183.9 |
| Disposals | (16.1) | (0.2) | (16.3) | - | (137.9) | - | (154.2) |
| Depreciation | - | - | - | (0.1) | - | - | (0.1) |
| Transfers | (17.7) | 1.2 | (16.5) | - | 16.5 | - | - |
| Revaluation | 136.3 | 38.1 | 174.4 | 0.9 | - | - | 175.3 |
| Movement in grossing up of headlease liabilities | - | 2.6 | 2.6 | - | - | - | 2.6 |
| At 31 December 2012 | 2,296.6 | 476.0 | 2,772.6 | 17.9 | 16.5 | - | 2,807.0 |

Adjustments from fair value to carrying value

| | Freehold £m | Leasehold £m | Total investment property £m | Owner-occupied property £m | Assets held for sale £m | Trading property £m | Total property portfolio £m |
|---|---|---|---|---|---|---|---|
| At 31 December 2013 | | | | | | | |
| Fair value | 2,843.1 | 465.6 | 3,308.7 | 19.7 | - | 24.7 | 3,353.1 |
| Revaluation of trading property | - | - | - | - | - | (2.1) | (2.1) |
| Lease incentives and costs included in receivables | (69.9) | (4.1) | (74.0) | - | - | - | (74.0) |
| Grossing up of headlease liabilities | - | 8.2 | 8.2 | - | - | - | 8.2 |
| **Carrying value** | **2,773.2** | **469.7** | **3,242.9** | **19.7** | **-** | **22.6** | **3,285.2** |
| At 31 December 2012 | | | | | | | |
| Fair value | 2,353.9 | 471.3 | 2,825.2 | 17.9 | 16.5 | - | 2,859.6 |
| Lease incentives and costs included in receivables | (57.3) | (4.2) | (61.5) | - | - | - | (61.5) |
| Grossing up of headlease liabilities | - | 8.9 | 8.9 | - | - | - | 8.9 |
| Carrying value | 2,296.6 | 476.0 | 2,772.6 | 17.9 | 16.5 | - | 2,807.0 |

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2013 by external valuers on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2012), which takes account of the properties' highest and best use.

CBRE Limited valued properties at £3,322.8m (2012: £2,829.1m) and other valuers at £30.3m (2012: £30.5m). Of the properties revalued by CBRE, £19.7m (2012: £17.9m) relating to owner-occupied property was included within property, plant and equipment, £nil (2012: £16.5m) was included within non-current assets held for sale and £24.7m (2012: £nil) was in relation to trading property.

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

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

**Reconciliation of revaluation surplus**

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

**Valuation process**

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

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

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

**Valuation techniques**

The fair value of the property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

For properties under construction, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between Level 1 and 2 or between Level 2 and 3 in the fair value hierarchy during the year.

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

All gains and losses recorded in the profit and loss in 2013 and 2012 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2013 and 31 December 2012, respectively.

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

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

**Sensitivity of measurement to variations in the significant unobservable inputs**

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

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

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

**Historic cost**

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

**14. Property, plant and equipment**

| | Owner-occupied property £m | Artwork £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2013 | 17.9 | 1.5 | 0.9 | 20.3 |
| Additions | - | - | 0.5 | 0.5 |
| Disposals | - | - | (0.1) | (0.1) |
| Depreciation | (0.1) | - | (0.3) | (0.4) |
| Revaluation | 1.9 | - | - | 1.9 |
| **At 31 December 2013** | **19.7** | **1.5** | **1.0** | **22.2** |
| At 1 January 2012 | 17.1 | 1.5 | 0.8 | 19.4 |
| Additions | - | - | 0.4 | 0.4 |
| Depreciation | (0.1) | - | (0.3) | (0.4) |
| Revaluation | 0.9 | - | - | 0.9 |
| At 31 December 2012 | 17.9 | 1.5 | 0.9 | 20.3 |
| Net book value | | | | |
| Cost or valuation | 19.7 | 1.5 | 2.5 | 23.7 |
| Accumulated depreciation | - | - | (1.5) | (1.5) |
| **At 31 December 2013** | **19.7** | **1.5** | **1.0** | **22.2** |
| Net book value | | | | |
| Cost or valuation | 17.9 | 1.5 | 2.2 | 21.6 |
| Accumulated depreciation | - | - | (1.3) | (1.3) |
| At 31 December 2012 | 17.9 | 1.5 | 0.9 | 20.3 |

The artwork is periodically valued by Bonhams on the basis of open market value and their extensive market knowledge. The latest valuation was carried out in November 2012 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

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

**15. Other receivables (non-current)**

| | **2013** **£m** | 2012 £m |
|---|---|---|
| Accrued income | **66.4** | 55.5 |
| Other | **5.7** | 5.4 |
| | **72.1** | 60.9 |

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £7.6m (2012: £6.0m), which was included as current assets within trade and other receivables, these amounts totalled £74.0m at 31 December 2013 (2012: £61.5m).

**16. Trade and other receivables**

| | **2013** **£m** | 2012 £m |
|---|---|---|
| Trade receivables | **11.2** | 8.6 |
| Other receivables | **15.4** | 13.3 |
| Prepayments | **15.2** | 14.8 |
| Sales and social security taxes | **3.3** | 5.9 |
| Accrued income | **8.4** | 8.2 |
| | **53.5** | 50.8 |

**17. Non-current assets held for sale**

| | **2013** **£m** | 2012 £m |
|---|---|---|
| Investment properties (see note 13) | **-** | 16.5 |
| Investments | **4.8** | - |
| | **4.8** | 16.5 |

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

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

As a result, this investment and these properties were recognised as non-current assets held for sale at 31 December 2013 and 31 December 2012, respectively, in accordance with IFRS 5 Non-current Assets Held for Sale. See note 13 for the historic cost of the properties included within non-current assets held for sale.

**18. Trade and other payables**

| | **2013** **£m** | 2012 £m |
|---|---|---|
| Trade payables | **8.9** | 7.9 |
| Other payables | **10.5** | 10.6 |
| Accruals | **28.1** | 25.7 |
| Deferred income | **36.1** | 36.3 |
| | **83.6** | 80.5 |

**19. Borrowings and derivative financial instruments**

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Book value £m** | **Fair value £m** | Book value £m | Fair value £m |
| Non-current liabilities | | | | |
| 2.75% unsecured convertible bonds 2016 | **167.7** | **204.5** | 165.0 | 188.2 |
| 1.125% unsecured convertible bonds 2019 | **135.0** | **138.1** | - | - |
| 6.5% secured bonds 2026 | **190.6** | **199.0** | 191.4 | 214.0 |
| 3.99% secured loan | **81.8** | **74.3** | 81.7 | 82.0 |
| Secured bank loans | **97.3** | **98.0** | 432.2 | 437.5 |
| Unsecured bank loan | **281.1** | **287.0** | - | - |
| Leasehold liabilities | **8.2** | **8.2** | 8.9 | 8.9 |
| Borrowings | **961.7** | **1,009.1** | 879.2 | 930.6 |
| Derivative financial instruments expiring in greater than one year | **15.9** | **15.9** | 54.3 | 54.3 |
| Borrowings and derivative financial instruments | **977.6** | **1,025.0** | 933.5 | 984.9 |

| | | |
|---|---|---|
| **Reconciliation to net debt:** | | |
| Borrowings and derivative financial instruments | **977.6** | 933.5 |
| Less: | | |
| Derivative financial instruments | **(15.9)** | (54.3) |
| Cash and cash equivalents | **(12.5)** | (4.4) |
| Net debt | **949.2** | 874.8 |

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 is £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 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 are not amortised.

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

The fair value of the 3.99% secured loan was determined by comparing the discounted future cash flows using the contracted yield with those of a prevailing market gilt, and represents Level 2 fair value measurement.

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

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

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

- Cash and cash equivalents;
- Trade receivables;
- Trade payables; and
- Leasehold liabilities.

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

**20. Deferred tax**

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

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

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

**21. Dividends**

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

**22. Gearing ratios**

**NAV gearing**

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

**Loan-to-value ratio**

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

**Gross interest cover ratio**

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

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

**Net interest cover ratio**

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

**23. Total return**

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

**24. Cash and cash equivalents**

| | 2013 | 2012 |
|---|---|---|
| | £m | £m |
| Short-term deposits | **12.5** | 4.4 |

**25. Post balance sheet events**

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

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

**26. Risk management and internal control**

The Board recognises that risk is an inherent part of running a business and, whilst it aims to maximise returns, the associated risks must be understood and managed. Whilst overall responsibility for this process rests with the Board it has delegated responsibility for assurance concerning the risk management process to the Audit Committee and the Risk Committee. Executive management is responsible for designing, implementing and maintaining the necessary systems of internal control.

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 quickly identify areas of increasing risk and respond accordingly.

A key element in the system of internal controls is the Group's risk register which is reviewed formally by the Board once a year. During 2013, the Group's processes for preparing the risk register and reporting the results both internally and externally were reviewed by a third party. Whilst no major points were identified a number of recommendations were made which were implemented in preparing the register this year. The register is prepared by the members of the Executive Committee who, having identified the risks, collectively assess the severity of each risk, the likelihood of it occurring and the strength of the controls in place. 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 and after due consideration, the Board will choose to accept.

The register, its method of preparation and the operation of the key controls in the Group's system of internal control, are reviewed throughout the year by the Risk Committee which periodically receives presentations from senior management to gain a more in-depth understanding of the control environment in certain areas of the business. The register was updated between December 2013 and February 2014 and includes 42 risks spread between strategic risks, operational risks and financial risks.

The principal risks and uncertainties that the Group faces in 2014, together with the controls and mitigating factors, are set out below:

**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 |
|---|---|---|
| • **Inconsistent strategy** The Group's strategy is inconsistent with the state of the market in which it operates.<br><br>• **Inconsistent development programme** The Group's development programme is not consistent with the economic cycle.<br><br>The Group currently benefits from a strong central London market which could be adversely affected by a number of high level economic factors. This would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – Total Return and Total Property Return.<br><br>The Board sees the level of these risks as broadly unchanged from 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 caused by changing the main underlying assumptions to reflect different economic scenarios.<br><br>• 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 arises from the policy of maintaining income from properties for as long as possible until development starts.<br><br>• Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable.<br><br>• The risk remains significant and therefore in forming its plans the Board pays particular attention 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 2013. 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 capital recycling.<br><br>• The three rolling forecasts prepared during the year focus on the same key measures but consider the effect of varying different assumptions to reflect changing economic and market conditions.<br><br>• The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations.<br><br>• During the year the Group's loan to value ratio remained below 30%, its net interest cover ratio was above 250% and the REIT ratios were comfortably met. |
| • **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. | • The Group's Risk Committee reports to the Board concerning regulatory risk.<br><br>• The Group employs a Health and Safety Manager.<br><br>• The Group employs a sustainability manager who | • A Health and Safety report is presented at all Executive Committee and main Board meetings.<br><br>• The Executive Committee receives regular reports from the sustainability manager.<br><br>• The Group pays considerable |

| | | |
|---|---|---|
| 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.<br><br>This risk is seen to have increased over the year due to the increased scale of the legislative and regulatory environment and the number/frequency of changes made to the legislative and regulatory framework. | reports to the sustainability committee which is chaired by Paul Williams.<br><br>• 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. | attention to sustainability issues and produces a sustainability report annually. |
| • **Reputational damage**<br>The Group's reputation is damaged through unauthorised and inaccurate media coverage.<br><br>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.<br><br>The Board considers the risk to have increased over the year because it considers that the importance of the Group's reputation/brand has risen. | • All new members of staff benefit from an induction programme and are issued with the Group's Staff Handbook.<br><br>• Social media channels are monitored.<br><br>• The Group takes advice on technological changes in the use of media and adapts its approach accordingly.<br><br>• There is an agreed procedure for approving all external statements. | • The Group employs a Head of Investor Relations and retains the services of an external PR agency. Both maintain regular contact with external media sources.<br><br>• The Group 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 |
|---|---|---|
| • **Higher interest rates**<br>Financing costs are higher due to increases in interest rates.<br><br>This risk would affect the Group's Interest Cover Ratio KPI.<br><br>The Board sees this risk as unchanged over the year. | • The Group uses interest rate derivatives to "top up" the amount of fixed rate debt to a level commensurate with the perceived risk to the Group. | • During the year the Group terminated two interest rate swaps which were at historic rates and initiated new instruments which have locked in the lower long-term rates that are currently available.<br><br>• 83% of borrowings were fixed or hedged at the year end.<br><br>• Additional 15 and 20 year fixed rate debt was put in place in January 2014. |
| • **Increase in interest rates**<br>Increases in interest rates can lead to higher property yields which cause property values to fall.<br><br>This would affect the following KPI's:<br>◦ Loan-to-value ratio.<br>◦ Total return.<br>◦ Total property return.<br><br>Interest rates have remained low for an extended period of time and yields are at or near historic lows. With the UK's improving economic background, gilt rates have already risen and a base rate rise is likely within the next two years. Though there is no direct relationship, this may cause property yields to soften in due course and therefore the Board considers this risk to have increased over the year. | • The impact of such 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.<br><br>• 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.<br><br>• Quarterly management accounts report on the Group's performance against covenants.<br><br>• Project appraisals are regularly reviewed and updated.<br><br>• Changes to the Group's financing profile over the year has simplified the management of its financial covenants. |

**Operational risks**

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

| Risk, effect and progression | Controls and mitigation | Action |
| --- | --- | --- |
| • **Reduced development returns**<br>The Group's development projects do not produce the anticipated financial return due to one or more of the following factors:<br>: Delays in the planning process.<br>: Delays due to contractors/ sub-contractors defaulting.<br>: Increased construction costs.<br>: Adverse letting conditions.<br><br>This would have an effect on the Group's Total Return and Total Property Return KPIs.<br><br>Taken as a whole the Board considers this risk to have increased since last year. This reflects that the scale of the Group's development programme and, therefore, its influence on the Group's results has increased. | • Standardised appraisals including 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.<br><br>• The scale of the Group's development programme is managed to reflect anticipated market conditions.<br><br>• Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage.<br><br>• Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified and implemented.<br><br>• Alternative procurement methods are being evaluated as a way of minimising the effect of increased construction costs. | • The Group is advised by top planning consultants and has considerable in-house planning expertise.<br><br>• Executive directors represent the Group on a number of local bodies which ensures that it remains aware of local issues.<br><br>• 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.<br><br>• Development costs are benchmarked to ensure that the Group obtains competitive pricing.<br><br>• The Group's style of accommodation remains in demand as evidenced by the 67 lettings achieved in 2013 which totalled 643,200 sq ft.<br><br>• The Group has secured significant pre-lets of the space in its current development programme which significantly "de-risks" these projects. |
| • **Tenant default**<br>The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. Continuing subdued growth in the UK economy could lead to an increase in tenant business failure.<br><br>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. | • 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.<br><br>• The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.<br><br>• The Group's credit committee regularly reviews a list of slow payers and considers what | • The Group has a diversified tenant base.<br><br>• The credit committee meets each week and considered 103 potential tenants during the year.<br><br>• In total the Group holds rental deposits amounting to £11.2m.<br><br>• On average during the year, the Group has collected 98% of the rents due within 14 days of the due date. |

| | | |
|---|---|---|
| The Board considers this risk to have decreased over the last year due to very low historic default levels, the increased diversity of tenants and the healthier outlook for the UK economy. | actions should be taken. | |
| • **Shortage of key staff**<br>The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.<br><br>This risk could impact on any of the Group's KPIs.<br><br>The risk is seen as unchanged over the year. | • The remuneration packages of all employees are bench-marked regularly.<br><br>• Six-monthly appraisals identify training requirements which are fulfilled over the next six months.<br><br>• The Nominations Committee considers succession matters as a standard agenda item. | • The Group recruited 10 new members of staff during 2013. The key appointment of a sustainability manager was made in January 2013.<br><br>• Staff turnover during 2013 was low at 6% (7% including retirees). |

**Financial instruments – risk management**

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

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

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

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

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

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

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

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

bank and trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained.

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

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

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

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

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

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

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

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

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

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

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

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2013, the Group's strategy, which was unchanged from 2012, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratios, are defined at the end of this announcement and are derived in note 22.

**27. Related parties**

The Directors confirm that, to the best of their knowledge, there were no significant related party transactions or changes in related party transactions during the financial year ended 31 December 2013.

**28. List of definitions**

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

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

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

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

**European Public Real Estate Association (EPRA)**
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in August 2011 (www.epra.com/media/EPRA_BPR_2011.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted. In addition, in accordance with EPRA guidelines, Group specific adjustments have been made to adjusted profit and adjusted earnings per share to arrive at the underlying position (see definition of underlying profit/earnings per share below).

- **EPRA earnings per share**

Recurring earnings from core operational activities.

- **EPRA net asset value per share**

NAV adjusted to exclude certain items not expected to crystallise in a long-term investment property business model.

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

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

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

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

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

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

- **EPRA vacancy rate**

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

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

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

In July 2013, EPRA published guidance on the calculation of the following cost ratios:

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

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

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

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

**Fair value movement**

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

**Ground rent**

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

**Headroom**

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

**Interest cover ratios**

- **Gross interest cover ratio**

Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable and capitalised interest.

- **Net interest cover ratio**

Net property income, excluding other income, net surrender premiums received and reverse surrender premiums, less surrender premiums paid divided by interest payable on borrowings and non-utilisation fees.

**Interest rate swap**

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

**Investment Property Databank Limited (IPD)**

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

**Key Performance Indicators (KPIs)**

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed.

**Lease incentives**

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

**Loan-to-value ratio (LTV)**

Drawn debt divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less cash and the unamortised equity element of the convertible bonds.

**Mark-to-market**

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

**NAV gearing**
Net debt divided by net assets.

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

**Net debt**
Borrowings and derivative financial instruments plus bank overdraft less cash and cash equivalents.

**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 UK rental income in the form of property income dividends (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 rental value as estimated by the Group's external valuers 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.

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

**Total shareholder return**
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 profit/earnings per share**
EPRA profit or earnings per share adjusted for items which are excluded to show the underlying trend. For 2012, these adjustments were for rates credits and the foreign exchange movement.

**Underlying valuation increase**
The valuation increase on the underlying portfolio.

**Yields**

- **Net initial yield**

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

- **Reversionary yield**

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

- **True equivalent yield**

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

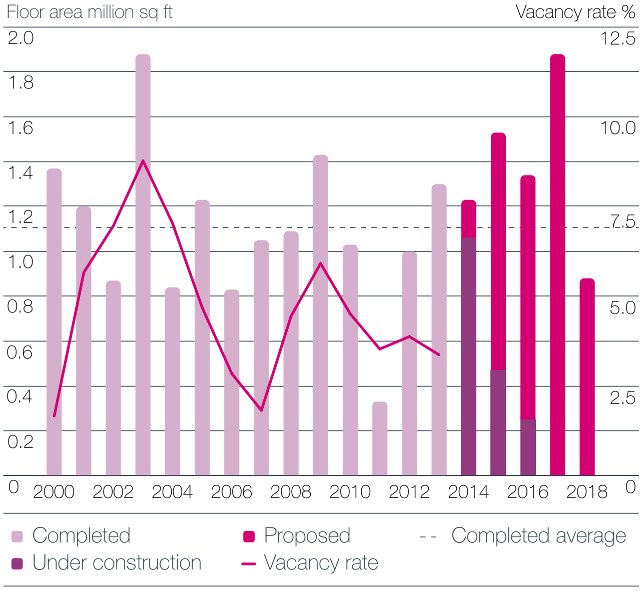
- **Yield shift**

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

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

# APPENDIX 1
# OUR MARKET

### West End office development pipeline




Source: CBRE

### Central London office investment transactions £bn

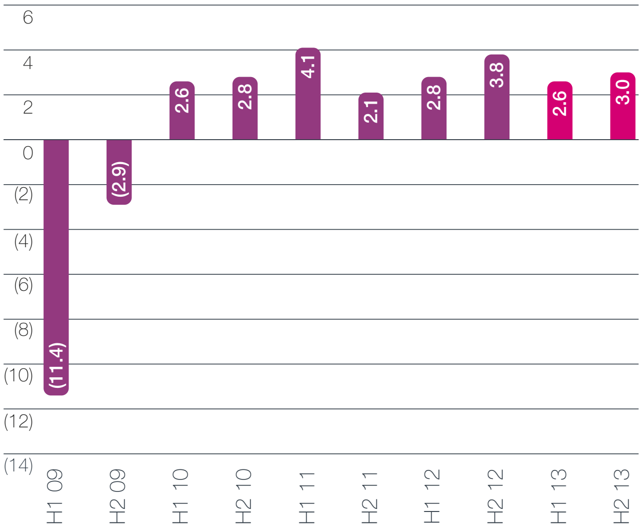

Source: CBRE

# APPENDIX 2
# VALUATION

**Valuation performance** %


[1] Quarterly Index
[2] Including 1-5 Grosvenor Place SW1

**Rental value growth**[1] %




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

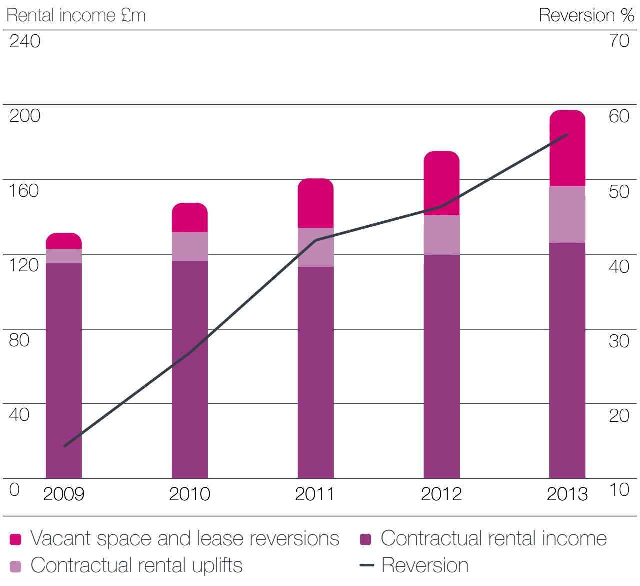
# APPENDIX 2
# VALUATION

## 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 | 2,076.5 | 62 | 10.7 | 197.4 | 2,762 | 14 | 13 | 121 | 2,910 |
| Borders | 303.0 | 9 | 11.7 | 31.8 | 557 | 3 | 9 | – | 569 |
| | 2,379.5 | 71 | 10.8 | 229.2 | 3,319 | 17 | 22 | 121 | 3,479 |
| **City** | | | | | | | | | |
| Borders | 879.9 | 26 | 20.3 | 123.0 | 1,541 | 21 | 29 | 309 | 1,900 |
| **Central London** | 3,259.4 | 97 | 13.0 | 352.2 | 4,860 | 38 | 51 | 430 | 5,379 |
| **Provincial** | 93.7 | 3 | 0.3 | 0.3 | 325 | – | – | – | 325 |
| **Total portfolio 2013** | **3,353.1** | **100** | **12.6** | **352.5** | **5,185** | **38** | **51** | **430** | **5,704** |
| 2012 | 2,859.6 | 100 | 7.3 | 183.3 | 4,729 | 66 | 336 | 314 | 5,445 |

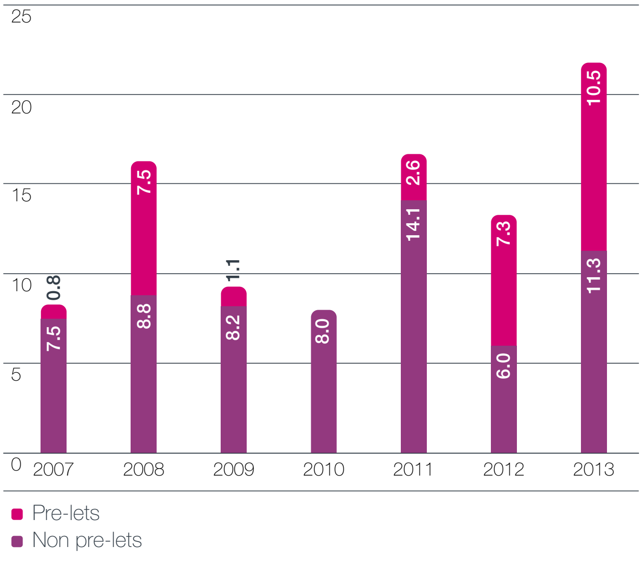
[1] Properties held throughout the year

### Portfolio reversion



# APPENDIX 3
# PORTFOLIO MANAGEMENT

**Letting activity by rental income** £m pa




**Profile of rental income expiry**[1] %

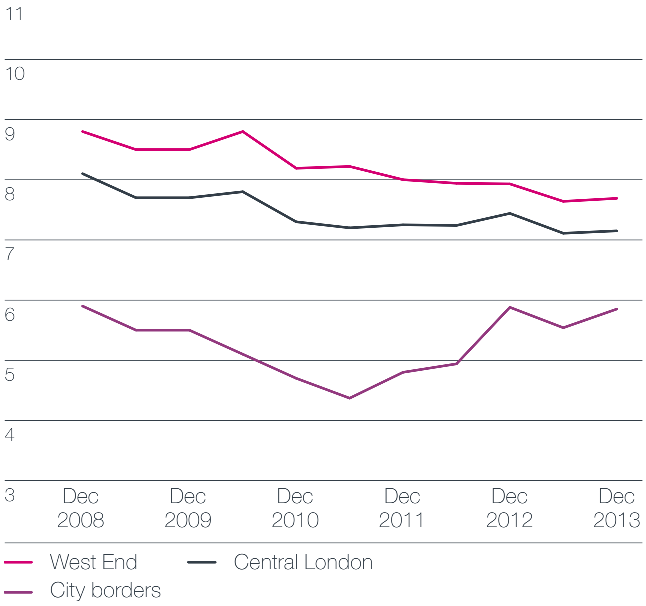

[1] Based upon annualised net contracted rental income of £126.0m

## Rental income profile

| | Rental uplift £m | Rental per annum £m |
|---|---|---|
| Annualised contracted rental income, net of ground rents | | 126.0 |
| Contractual rental increases across the portfolio | 30.2 | |
| Letting 38,000 sq ft available floor area | 1.5 | |
| Completion and letting 51,000 sq ft of minor refurbishments | 1.8 | |
| Completion and letting 430,000 sq ft of major projects | 19.9 | |
| Anticipated rent review and lease renewal reversions | 17.6 | |
| Portfolio reversion | | 71.0 |
| Potential portfolio rental value | | 197.0 |

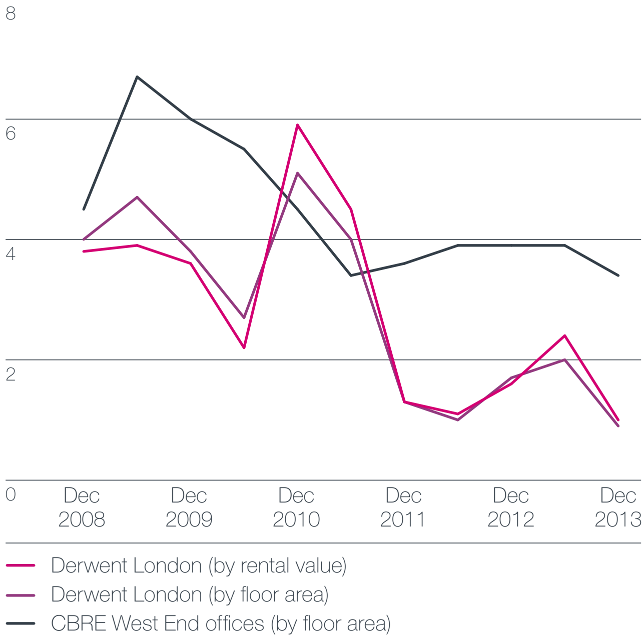
# APPENDIX 3
# PORTFOLIO MANAGEMENT

**Average unexpired lease length**[1] Years




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

**Five-year vacancy trend** %

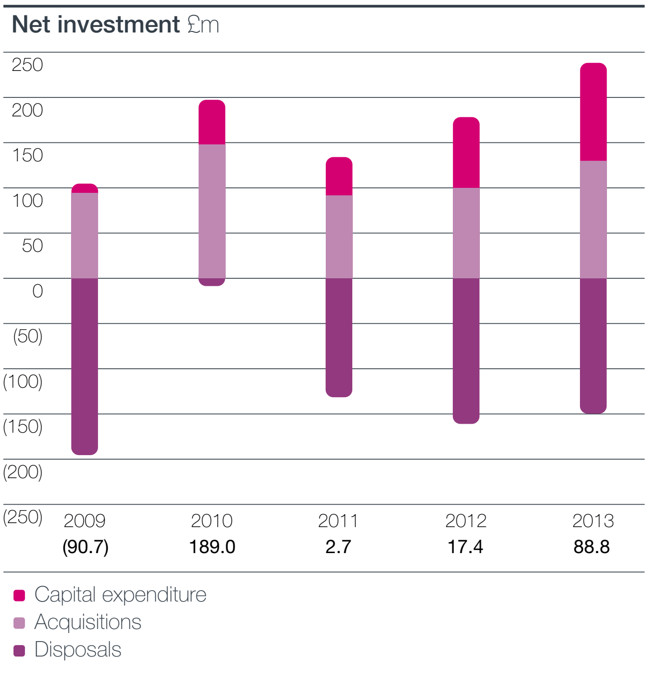



## Portfolio statistics – rental income

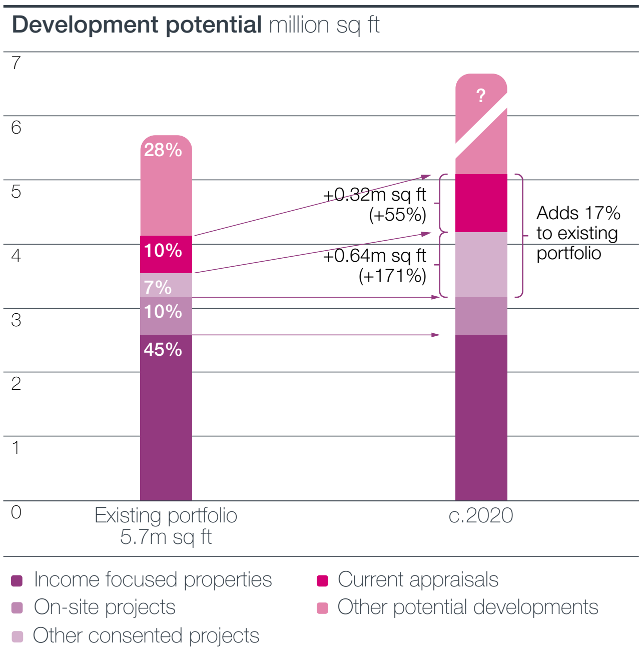
| | Net contracted rental income per annum £m | Average rental income £ per sq ft | Vacant space rental value per annum £m | Rent review and lease reversions per annum £m | Portfolio estimated rental value per annum £m | Average unexpired lease length[1] Years |
|---|---|---|---|---|---|---|
| **West End** | | | | | | |
| Central | 74.4 | 27.30 | 6.8 | 26.3 | 107.5 | 7.6 |
| Borders | 11.7 | 20.99 | 0.2 | 6.0 | 17.9 | 8.5 |
| | 86.1 | 26.24 | 7.0 | 32.3 | 125.4 | 7.7 |
| **City** | | | | | | |
| Borders | 35.2 | 23.07 | 16.2 | 15.3 | 66.7 | 5.9 |
| **Central London** | 121.3 | 25.23 | 23.2 | 47.6 | 192.1 | 7.2 |
| **Provincial** | 4.7 | 14.31 | – | 0.2 | 4.9 | 5.9 |
| **Total portfolio 2013** | **126.0** | **24.54** | **23.2** | **47.8** | **197.0** | **7.1** |
| 2012 | 119.6 | 24.49 | 21.1 | 34.3 | 175.0 | 7.4 |

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

# APPENDIX 4
# PROJECTS







# APPENDIX 4
# PROJECTS

## Project summary 2014-2016

| Property | 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[3]** | | | | | | |
| Turnmill EC1 | – | 41 | 70 | 12 | Q3 2014 | 55.00 |
| 40 Chancery Lane WC2 | – | 61 | 102 | 24 | Q4 2014 | 65.00 |
| Queens W2 | – | – | 21 | 9 | Q4 2014 | Residential |
| 73 Charlotte Street W1 | – | 13 | 16 | 10 | Q3 2015 | Residential |
| White Collar Factory EC1 | – | 124 | 293 | 121 | Q3 2016 | c.50.00 |
| 1-2 Stephen Street W1 | – | 82[2] | 84 | 9 | Q2 2014 | c.62.50 |
| | **–** | **321** | **586** | **185** | | |
| **2014 – Consented** | | | | | | |
| Tottenham Court Walk W1 | 0.7 | 24 | 40 | 12 | Q2 2015 | Retail |
| | **0.7** | **24** | **40** | **12** | | |
| **2015/2016 – Consented** | | | | | | |
| 80 Charlotte Street W1 | 1.9 | 234 | 380 | 150 | H2 2017 | c.65.00 |
| 55-65 North Wharf Road W2 | 1.3 | 78 | 240 | 110 | 2018 | c.57.50 |
| | **3.2** | **312** | **620** | **260** | | |
| Planning and design | | | | 16 | | |
| Other | | | | 87 | | |
| Capitalised interest | | | | 35 | | |
| **Total (2014-2016)** | **3.9** | **657** | **1,246** | **595** | | |

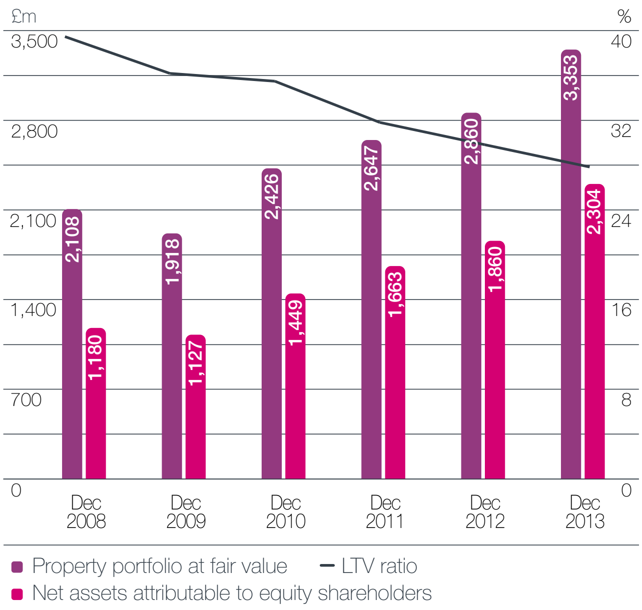
[1] Excluding projects that commence in 2016 and beyond (as at December 2013)
[2] Includes redundant storage space – now offices
[3] Fixed price contracts

## Project summary 2015 onwards

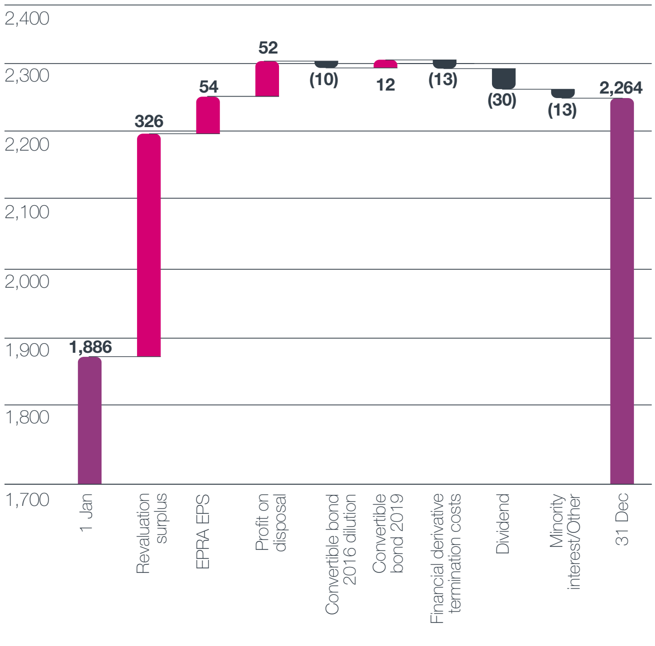
| Property | Current net income £m pa | Pre-scheme area '000 sq ft | Proposed area '000 sq ft | Earliest possession year | Comment |
|---|---|---|---|---|---|
| **Consented** | | | | | |
| Wedge House SE1 | 0.2 | 39 | 80 | 2014 | Rolling break from 2014. Offices |
| 1 Oxford Street W1 | – | – | 275 | c.2017 | Option site. Offices, retail & theatre |
| | **0.2** | **39** | **355** | | |
| **Appraisals** | | | | | |
| Jaeger House W1 | 0.9 | 25 | c.30 | 2014 | Potential sale |
| Balmoral Grove N7 | 0.6 | 67 | c.200 | 2014 | Residential potential |
| 9 Prescot Street E1 | 1.2 | 103 | c.113 | 2015 | |
| 25 & 29 Berners Street W1 | 1.4 | 79 | c.100 | 2016 | Tenant can break earlier |
| Monmouth House EC1 | 1.4 | 42 | c.75 | 2016 | |
| Network Building W1 | 2.3 | 64 | c.100 | 2017 | |
| Mark Square House EC2 | 1.5 | 62 | c.70 | 2018 | |
| 19-35 Baker Street W1 | 5.1 | 146 | c.250 | 2018 | |
| Premier House SW1 | 1.9 | 62 | c.80 | 2018 | |
| | **16.3** | **650** | **1,018** | | |
| Adjustments for JVs | (2.3) | (66) | (113) | | 19-35 Baker Street |
| | **14.0** | **584** | **905** | | |
| **Total (2015 onwards)** | **14.2** | **623** | **1,260** | | |
| **Total pipeline** | **18.1** | **1,280** | **2,506** | | |

# APPENDIX 5 FINANCE

### Debt, net assets and gearing

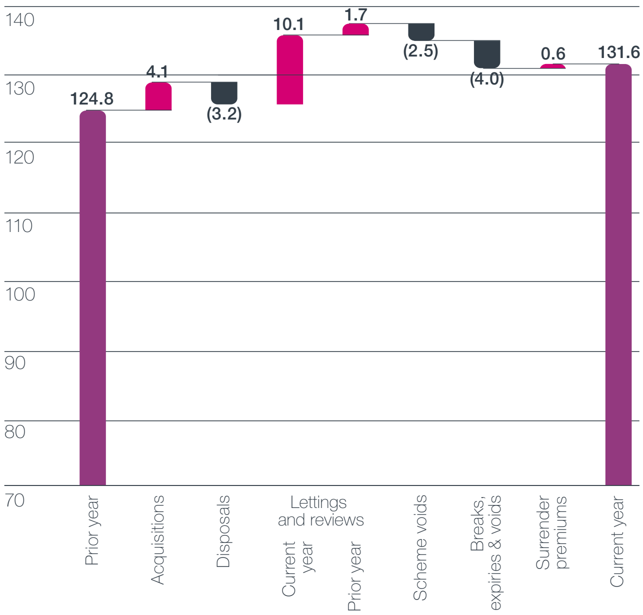



### EPRA net asset value per share p



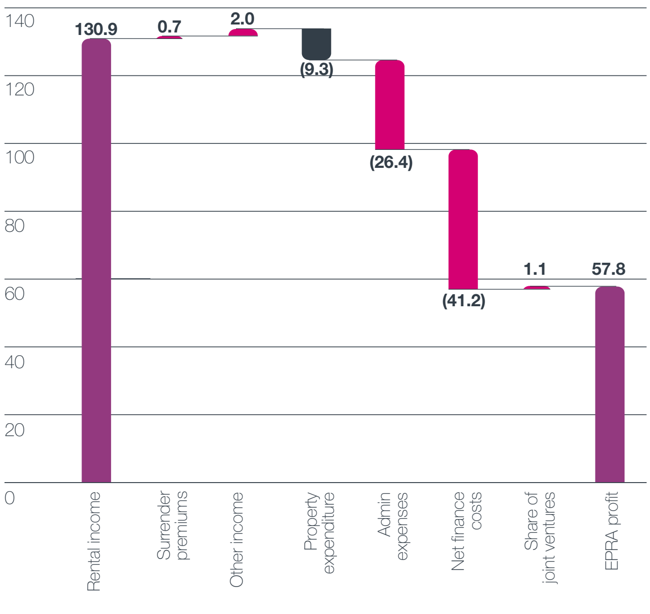

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | 1,886 | 326 | 54 | (10) | 12 | 52 | (13) | (30) | (13) | 2,264 |
| 2012 | 1,701 | 170 | 50 | – | – | 7 | (37) | (30) | (5) | 1,886 |

### Gross property income £m




| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2013 | 124.8 | 4.1 | (3.2) | 10.1 | 1.7 | (2.5) | (4.0) | 0.6 | 131.6 |
| 2012 | 125.5 | 1.6 | (6.1) | 7.2 | 4.6 | (2.7) | (4.0) | (1.3) | 124.8 |

### EPRA profit £m




| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2013 | 130.9 | 0.7 | 2.0 | (9.3) | (26.4) | (41.2) | 1.1 | 57.8 |
| 2012 | 124.7 | 0.1 | 2.5 | (10.3) | (24.5) | (40.8) | 0.8 | 52.5 |
| Variance | 6.2 | 0.6 | (0.5) | 1.0 | (1.9) | (0.4) | 0.3 | 5.3 |

# APPENDIX 5
# FINANCE

## EPRA like-for-like net rental income

| | Properties owned throughout the year £m | Acquisitions £m | Disposals £m | Development property £m | Total £m |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Rental income | 105.1 | 5.2 | 1.6 | 19.0 | 130.9 |
| Property expenditure | (4.8) | (0.1) | (0.4) | (3.9) | (9.2) |
| **Net rental income** | 100.3 | 5.1 | 1.2 | 15.1 | 121.7 |
| Other[1] | 1.9 | – | – | 0.7 | 2.6 |
| **Net property income** | 102.2 | 5.1 | 1.2 | 15.8 | 124.3 |
| 2012 | | | | | |
| Rental income | 101.4 | 1.1 | 4.9 | 17.3 | 124.7 |
| Property expenditure | (4.4) | – | (1.5) | (4.7) | (10.6) |
| Net rental income | 97.0 | 1.1 | 3.4 | 12.6 | 114.1 |
| Other[1] | 2.3 | – | 0.1 | 0.5 | 2.9 |
| **Net Property income** | 99.3 | 1.1 | 3.5 | 13.1 | 117.0 |
| **Increase based on gross rental income** | 3.6% | | | | 5.0% |
| **Increase based on net rental income** | 3.4% | | | | 6.7% |
| **Increase based on net property income** | 2.9% | | | | 6.2% |

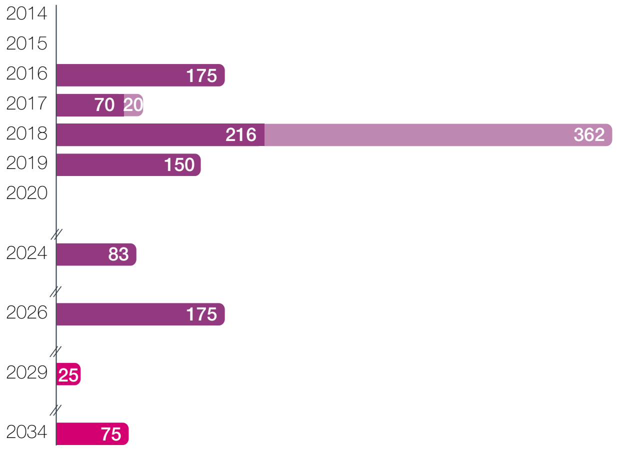
[1] Includes surrender premiums paid or received, dilapidation receipts and other income

## Debt facilities

| | £m | £m | Maturity |
|---|---|---|---|
| 6.5% secured bonds | | 175 | March 2026 |
| 3.99% secured loan | | 83 | October 2024 |
| 2.75% unsecured convertible bonds | | 175 | July 2016 |
| 1.125% unsecured convertible bonds | | 150 | July 2019 |
| Committed bank facilities | | | |
| Term – secured | 28 | | June 2018 |
| Term/revolving credit – unsecured | 90 | | December 2017 |
| Revolving credit – unsecured | 550 | | September 2018 |
| | | 668 | |
| **At 31 December 2013** | | **1,251** | |
| 4.41% unsecured loan | | 25 | January 2029 |
| 4.68% unsecured loan | | 75 | January 2034 |
| **At 31 January 2014** | | **1,351** | |

# APPENDIX 5
# FINANCE

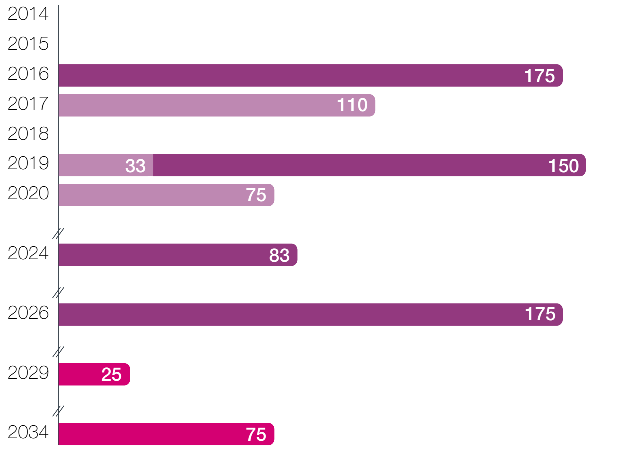
**Maturity profile of loan facilities** £m
**Proforma as at 31 January 2014**[1]




- Drawn
- Headroom
- Drawn in January 2014

[1] Includes £100m fixed rate loan drawn in January 2014. Drawdown reduces drawn amounts in the revolving bank facility by £99m after costs.

**Maturity profile of fixed and hedged debt** £m
**Proforma as at 31 January 2014**[1,2]




- Hedged
- Fixed rate
- Drawn in January 2014

[2] Excludes forward start swaps

# APPENDIX 5
# FINANCE

## Net debt

| | 2013 £m | 2012 £m |
|---|---|---|
| Cash | **(12.5)** | (4.4) |
| Bank facilities | **385.0** | 437.5 |
| Secured loan | **83.0** | 83.0 |
| Secured bonds 2026 | **175.0** | 175.0 |
| Fair value and issue costs | **15.6** | 16.4 |
| Unsecured convertible bonds 2016 | **175.0** | 175.0 |
| Unsecured convertible bonds 2019 | **150.0** | – |
| Issue costs, equity components and unwinding of discounts | **(22.3)** | (10.0) |
| Leasehold liabilities | **8.2** | 8.9 |
| Bank loan arrangement costs | **(7.8)** | (6.6) |
| **Net debt** | **949.2** | 874.8 |

## Gearing and interest cover ratio

| | 2013 % | 2012 % |
|---|---|---|
| Loan-to-value ratio | **28.0** | 30.0 |
| NAV gearing | **40.0** | 45.6 |
| Interest cover ratio (gross) | **363** | 351 |
| Interest cover ratio (net) | **279** | 263 |

## Debt summary

| | Proforma[1] £m | 2013 £m | 2012 £m |
|---|---|---|---|
| Bank loans | | | |
| Floating rate | **68.0** | **167.0** | 69.5 |
| Swapped | **218.0** | **218.0** | 368.0 |
| | **286.0** | **385.0** | 437.5 |
| Non-bank debt | | | |
| Fixed rate secured loan | **83.0** | **83.0** | 83.0 |
| Fixed rate secured bonds 2026 | **175.0** | **175.0** | 175.0 |
| Fixed rate unsecured bonds 2016 | **175.0** | **175.0** | 175.0 |
| Fixed rate unsecured bonds 2019 | **150.0** | **150.0** | – |
| Fixed rate unsecured loan 2029 | **25.0** | **–** | – |
| Fixed rate unsecured loan 2034 | **75.0** | **–** | – |
| | **683.0** | **583.0** | 433.0 |
| Total | **969.0** | **968.0** | 870.5 |
| | | | |
| Percentage of debt that is unsecured | **63%** | **63%** | 20% |
| Percentage of non-bank debt | **70%** | **60%** | 50% |
| Hedging profile (%) | | | |
| Fixed | **70** | **60** | 50 |
| Swaps | **23** | **23** | 42 |
| | **93** | **83** | 92 |
| | | | |
| Weighted average interest rate (%)[2] | **3.88** | **3.64** | 4.63 |
| Weighted average interest rate (%)[3] | **4.34** | **4.10** | 4.88 |
| | | | |
| Weighted average maturity of facilities (years) | **6.9** | **5.9** | 5.4 |
| Weighted average maturity of borrowings (years) | **7.7** | **6.3** | 6.1 |
| | | | |
| Undrawn facilities | **382** | **283** | 333 |
| Uncharged properties | **2,144** | **2,144** | 624 |

[1] Includes £100m fixed rate loan drawn down in January 2014
[2] Convertible bonds at 2.75% and 1.125%
[3] Convertible bonds on IFRS basis