DERWENT LONDON

18 March 2008

DERWENT LONDON PLC ("Derwent" / "Group")

Preliminary results for the year ended 31st December 2007

DERWENT LONDON ANNOUNCES STRONG RESULTS

Derwent London is pleased to announce excellent progress in the year to 31 December 2007, demonstrating the quality of its portfolio and management and the opportunities created by and the success of the acquisition of London Merchant Securities.

Highlights

- Adjusted net asset value per share rose 8.4% to 1,862p (1 February 2007 proforma: 1,717p); adjusted net asset value excluding minority interests of 1,801p (1 February 2007 proforma: 1,662p).
- Total dividend up 53% to 22.5p (2006: 14.75p) compared to an increase in diluted recurring earnings per share of 29% to 34.99p.
- Value of the Group's portfolio rose to £2.7 billion (1 February 2007 proforma: £2.5 billion) producing a surplus of £90.3 million.
- Recurring profit before tax of £38.0 million, up 132% (2006: £16.4 million). IFRS loss, after goodwill write off, of £99.8 million (2006: profit £242.8 million).
- Successful REIT conversion achieved on 1 July 2007; resulting capital gains tax saving of £31.3 million on the Group's disposals.
- Disposals programme realised £344 million, producing a valuation surplus of £130 million.
- Acquisition of £142 million of Central London assets.
- Lettings totalling 21,900 sq m completed during the year with an annual rental income of £8.3 million.

Robert Rayne, Chairman, commented:

"After our first year as Derwent London following the acquisition of London Merchant Securities ("LMS") in February, it is extremely pleasing to be able to report a strong set of results. 2007 has been a testing period for the property sector, particularly in the latter months when the industry experienced a sharp decline in values. Against this background, the results clearly demonstrate the quality of both our portfolio and management."

"We foresee a more demanding market in which the key to value creation will be hands-on property expertise. With balance sheet gearing of 43%, unused, committed, bank facilities of £370 million and long-term rental commitments from quality tenants, the group is financially well positioned not only to face, but also to capitalise, on these challenging times. We are confident that your management's experience and proven skills will enable your group to take advantage of those opportunities which will deliver future growth."

For further information, please contact:

Derwent London
John Burns, Chief Executive
Tel: 020 7659 3000

Financial Dynamics
Stephanie Highett/Dido Laurimore
Tel: 020 7831 3113

A copy of the investor presentation and a live audio webcast will be available on Derwent London's website, www.derwentlondon.com, from 9.30am.

Chairman's statement

Overview and results
After our first year as Derwent London following the acquisition of London Merchant Securities ("LMS") in February 2007, it is extremely pleasing to be able to report a strong set of results. 2007 has been a testing period for the property sector, particularly in the latter months when the industry experienced a sharp decline in values. Against this background, the results clearly demonstrate the quality of both our portfolio and management.

Adjusted net asset value per share, based on the total net assets of the group, increased to 1,862p from the proforma figure of 1,717p at 1st February 2007, the acquisition completion date. The adjusted figure, excluding minority interests, was 1,801p, an increase of 8.4% from the comparable proforma figure of 1,662p. An increase of 12.8% in the first six months was followed by a decline of 3.9% in the second half as the impact of the credit crisis contributed to an increase in yields. At the year end, the investment portfolio was valued at £2.7 billion, producing a surplus of £94.4 million before the lease incentive adjustment of £4.1 million. The valuation reflects a true equivalent yield of 5.7%. The Central London properties which account for 93% of the total portfolio showed a 5.8% increase for the year. Properties held throughout the period gained in value by 4.3% compared to 21.6% in 2006.

Recurring profit before tax, which includes eleven months of the results of LMS, was £38.0 million. This measure of performance has increased 132% from last year's level of £16.4 million.

REITS
The group converted to a REIT on 1st July 2007 to take advantage of the more favourable tax regime in which it is exempt from tax on both rental profits and chargeable gains. The consequent conversion charge, calculated as 2% of the value of the investment portfolio at the date of conversion, amounts to £53.6 million. This is included in the tax charge for the year and will be paid during 2008. As a REIT, the group was able to eliminate the latent capital gains tax liability on the investment property portfolio. Following conversion, the group moved decisively to take advantage of the active investment market and effect tax efficient disposals of non-core properties. This achieved outstanding results and, together with the first half sales, proceeds totalled £344 million net of costs, showing a surplus of £130 million or 63% over the pro-forma values. The exemption from tax on capital gains saved the group £31.3 million of tax on these disposals.

Dividend
As a REIT, the group is subject to a minimum distribution test whereby at least 90% of recurring profits from the tax-exempt business must be distributed as a Property Income Dividend ("PID"). Therefore, all dividends must now be allocated between PIDs and non-PIDs. The directors are recommending a final dividend of 15.0p per share of which 10.0p per share will be paid as a PID. This will be paid on 19th June 2008 to shareholders on the register on 23rd May 2008. Together with the non-PID interim dividend of 7.5p per share this gives a total dividend for the year of 22.5p per share. In accordance with the group's revised policy, this dividend includes a substantial proportion of the tax on income saved through REIT conversion and represents an increase of 52.5% on the 14.75p paid in respect of 2006.

Market review
After a strong first half for property values, the second half of the year was characterised by a lack of liquidity and rising yields, causing a decline in values. By contrast, tenant demand remained strong, particularly in our core area of operations, the West End. This area has a limited supply of quality office space and, as a consequence, has enjoyed growth in rental values of 14.6% over the year.

In our key London villages, we continue to focus on the middle market delivering our hallmark, design-led offices at economic rents ranging from £430 - £700 per sq m (£40 - £65 per sq ft). When measured against prime rents in Mayfair and St James', which have exceeded £1,290 per sq m (£120 per sq ft), we believe our buildings are an attractive proposition for tenants. The success of this approach is demonstrated by lettings totalling 21,900 sq m being completed during the year at rental levels 18% above the valuers' December 2006 estimates. These included both the highest rent achieved at Tower House, Covent Garden and a record rent for Fitzrovia at Qube. At the year end, space available for letting within the group's 533,000 sq m (5.7 million sq ft) portfolio amounted to 4.0% by floor area and 4.5% by rental value.

The planning process continues to become more complicated and lengthy. In order to minimise voids during this period, and to maintain flexibility over the timing of schemes, it is part of the group's strategy to keep properties income producing until works commence.

Despite the protracted process, three notable planning consents have recently been obtained. At North Wharf Road, Paddington, a scheme for a landmark 22,300 sq m office building and 100 residential apartments has been approved, an increase in floor area of 276% from the existing building. The property is let until a possible start date of 2010.

Secondly, we have received planning permission for the redevelopment of 40 Chancery Lane, Holborn. This involves replacing three buildings, totalling 6,600 sq m, with 9,500 sq m of high quality offices. They are all multi-let on leases that expire by 2012.

Finally, at the Angel Building in Islington, planning permission has been obtained for a 23,700 sq m property, an increase of 58% from the existing building. This project also illustrates how, by working closely with our tenants, we are able to unlock additional value from within our portfolio. A restructuring of the existing lease was negotiated whereby we are able to undertake construction works immediately but the tenant continues to pay the rent of £4.2 million per annum until March 2010. With the scheme expected to be delivered for occupation in 2010, this has mitigated a substantial income void.

During the year, further investment has been made in the group's pipeline of future projects. Within the key London villages of Clerkenwell, Fitzrovia and Noho, £142 million was expended on enlarging our holdings. The average passing rent of these acquisitions is £178 per sq m (£16.50 per sq ft) and all have the scope to substantially increase floor area. In addition, capital expenditure on projects during the year was £61 million. Principally, this was incurred on our pre-let schemes at Horseferry House and Arup Phases II and III, as well as Qube which completed towards the year end and Portobello Dock which completes in March. These projects comprise 44,800 sq m.

Board

The directors are delighted to welcome David Silverman to the board. David**,** who has been with the group since 2002, was appointed on 2nd January 2008 with responsibility for investment acquisitions and sales.

Prospects

Our objective is to create superior shareholder return through the intensive management of our Central London portfolio. This is characterised by its reversionary nature as well as the potential to create value through lease management and high quality refurbishment or re-development. These features not only underpin our future growth but also allow us to manage risk in times of uncertainty.

At present, the investment market is experiencing some instability and equilibrium will only return when there is a consistent deal flow which requires the restoration of both confidence and liquidity to the market. Currently, demand for space in the West End remains firm for the limited available space. However, in the event of a general economic slowdown, even in this distinctive area, rental growth is likely to be affected.

While these factors lead us to have a cautious view of the market in the year ahead, our focus on properties offering mid-market rents, provides relative resilience and many of the group's most successful projects were originally acquired in similarly testing markets. At the year end, both balance sheet gearing at 42.5% and profit and loss gearing at 1.81, were at comfortable levels. Together with unused, committed, bank facilities of £370 million and long-term rental commitments from quality tenants, this shows the group to be financially well positioned not only to face, but also to capitalise, on these challenging times.

In summary, whilst we foresee a more demanding market in which the key to value creation will be hands-on property expertise, we are confident that your management's experience and proven skills will enable the group to take advantage of those opportunities which will deliver future growth.

R A Rayne
18th March 2008

Property review

Derwent London is a property investment company focused on the Central London office market. At 31st December 2007, the portfolio was valued at £2.7 billion, comprising over 533,000 sq m concentrated in the West End where 72% by value of the assets are located. The company's strategy is to deliver above average total returns from rental income and the creation of value through asset management and development. Innovative design solutions and high quality contemporary architecture play an important role in the business and the group has gained a strong reputation for delivering first class, award-winning office space that is both attractive and economical to tenants.

Key achievements in 2007 and since the year end include:

- The integration of London Merchant Securities into Derwent Valley Holdings to create Derwent London.
- Conversion to a REIT on 1st July 2007.
- £344 million of disposals, which produced a £130 million surplus.
- The acquisition of £142 million of properties, all characterised by low rental levels and offering significant planning opportunities.
- 21,900 sq m of letting activity at an annual rental income of £8.3 million and achieving 18% above the valuers' estimated rental values.
- Initial lettings made at the group's 10,000 sq m Qube office development following its completion in October.
- Substantial progress at current schemes including Horseferry House in Victoria and the Arup project in Fitzrovia, both of which are pre-let.
- Development commenced at 16-19 Gresse Street to deliver 4,400 sq m of offices in Noho in 2009.
- A significant planning permission obtained for the redevelopment of North Wharf Road, Paddington to provide 22,300 sq m of offices and 100 residential units.
- A lease restructure at the Angel Building in Islington that paved the way for a major 23,700 sq m redevelopment for which planning permission has been received in 2008.
- A total annualised property return for properties held throughout the period of 11.2%.

<u>Overview</u>

2007 was a groundbreaking year for the company with the creation of Derwent London – following the acquisition of LMS by Derwent Valley Holdings ("DVH"). Managing the merger of the businesses was an important and complex process, requiring not only the successful integration of the operations but also the continuation of the DVH ethos that has been built up over many years. With the integration fully complete, all employees are now based at our Savile Row office.

The merger doubled the floor area of the portfolio to 533,000 sq m and significantly strengthened our position as a leading Central London office investor. Overall, 93% of our assets by value are located here. At the same time it reinforced our strategy of owning properties let at low average rents with important reversionary growth potential and maintaining a portfolio with substantial development potential. The average rent of the Central London portfolio is £257 per sq m and the average unexpired lease length is 8.8 years. Over 50% of this space has been identified for refurbishment/redevelopment projects at the appropriate time in the future.

Whilst substantially enlarging our property ownership, the merger also enhanced our geographical coverage within Central London. In particular, DVH had a strong representation in the villages south of Oxford Street (such as Soho, Covent Garden, Victoria) which complements the LMS ownerships to the north of Oxford Street (such as Fitzrovia, Baker Street, Islington). This increased presence in these dynamic and evolving areas gives us the opportunity to provide a greater offering of West End properties to tenants at various levels of rent. With high occupational costs in the West End, this puts us in a strong position.

In the villages of Central London, we have accumulated a specialist knowledge and understanding of their history and culture and how each is evolving to face the future. Through the provision of high quality working environments, we aim to be recognised as a key player in Central London and to help influence the changing look of the capital. We concentrate on mid-market office rental locations, typically £430 - £700 per sq m, as these are found in some of the most vibrant and improving areas in London to both work and live. For example, we identified and invested in Paddington at an early stage of its regeneration and this area has been transformed over the last five years to become an important part of the West End office market. In Fitzrovia, where we own over 100,000 sq m of property, we are reinvigorating the locality by replacing the tired 1950s properties with contemporary offices and improved retail facilities.

The London economy

With our Central London focus, the health and trends of London's economy are a key factor to the group, not only in the generation and growth of rental income but also in the timing and delivery of our projects.

London's economy accounts for approximately 19% of the UK's total GDP and 15% of its employment. Its growth and prosperity is strongly influenced by the vitality of the financial and business services (F&BS) sector and this has expanded rapidly over recent years. Consequently, the health of this sector is an important determinant in the demand for the capital's office space. Despite the recent turbulence in the global financial markets, economic forecasts suggest that over the next five years, London's economy should be more resilient than the rest of the UK.

Total office stock in Central London is estimated at 19.1 million sq m and is subdivided into three distinct regions – the City (49%), the West End (42%) and Docklands (9%). The West End has a broad tenant base and is home to media, professional & business services and specialist fund management, whilst the City is the traditional home of banking, insurance and legal services. Since its creation in the late 1980s, Docklands has been very successful in delivering large, modern office space that has attracted tenants away from the City. The City's response was to ease planning regulations to allow taller, higher density buildings, thus increasing the development pipeline and enlarging the City office stock. By contrast, the supply of West End office space has remained extremely tight due to the restrictive planning regulations, which include the requirement for residential provision where additional office space is proposed. With conservation areas covering approximately 75% of the West End and nearly 3,900 listed buildings, development activity in the area is further constrained. As a consequence, office space in the West End has increased little since the early 1990s.

The strong UK economy in 2007, especially in the first half of the year, helped drive the Central London office vacancy rate downwards, from 4.3% of total stock at 31st December 2006 to 3.0% at the year end, the lowest level since 2001. Looking at the sub-markets, the City vacancy rate dropped from 5.5% to 3.5% whilst the West End, where available space is particularly scarce, decreased from 3.5% to just 2.3%. These levels are well below the 10-year averages of 7.3% in the City and 4.8% in the West End. Strong letting activity contributed to these falling vacancy rates with take-up in Central London and the West End exceeding their 10-year annual averages.

During the year, the supply-demand imbalance in the Central London office market, especially in the West End, drove rents to new heights and we benefited from this in our letting activity. Tenant demand is still firm, despite the changing economic outlook in the second half of the year that began with the credit crisis, although the mood is undoubtedly more cautious. The West End market looks set to prove more resilient than that of the City due to its lower vacancy levels, more diverse tenant base and limited development pipeline.

Despite strong rental growth in 2007, the increase in yields pushed capital values downwards. According to the IPD Quarterly Property Index, the total return in 2007 for West End offices was 5.7%, outperforming both the City Office Index (-3.9%), and the All Property Index (-4.4%). Derwent London's underlying property return over the same period was 11.2%.

We monitor closely the occupational and investment trends and their subsequent impact on the office market. As the properties that form the next generation of schemes are income producing, we have the flexibility to adjust the timing of our projects to reflect anticipated market conditions. Our skills and experience in operating through different stages of the economic and property cycles enable us to produce superior returns through this careful timing of our schemes, their design and their rental competitiveness.

Objectives and key performance indicators

Derwent London's strategy is straightforward; we add value to our properties through asset management and the development process. We implement well thought out planning solutions, based on high quality architectural design and initiated by enterprising asset management which reflects our understanding of tenants' requirements. Through this process, our objective is to deliver above average annualised total return to our shareholders.

In last year's report and accounts we divided this approach into a number of key objectives. These, together with the progress that has been made during 2007, are reviewed below.

1. Ownership of a portfolio with significant opportunities for value enhancement.
   Each year a thorough property-by-property review is undertaken and incorporated into a five-year business plan. This year's review identified over 50% of the enlarged portfolio as having significant development potential, a similar proportion to a year ago prior to the merger.

2. Active lease management to improve rental income.
   A key characteristic of the portfolio is its reversionary rental profile with low passing rents, thereby providing the opportunity for income growth and value enhancement. At the year-end, our average Central London office rent was £257 per sq m, compared to £281 per sq m last year reflecting the lower average rents in the LMS portfolio. However, on a like for like basis, the average rent in the DVH portfolio increased to £294 per sq m.

   We aim to maximise rental income in all of our buildings including those earmarked for redevelopment. As an example, at the Angel Building, we secured control from the tenant in March, whilst maintaining the £4.2 million per annum rental income until 2010. Planning permission has now been obtained for a major development.

3. Maintain a pipeline of projects that can be delivered according to market conditions.
   The planning process is complex and protracted so it is important to identify development potential and undertake appraisals at an early stage to ensure an appropriate supply of schemes for the future. With diligence and flexibility, we deliver schemes to the market at the most appropriate time. Our current major projects total 40,300 sq m, of which 70% of the space has been pre-let to Arup and Burberry. Additionally, we have planning permission for over 84,600 sq m of future projects at properties which have an existing floor area of 39,500 sq m and are currently producing a rental income of £8.5 million per annum.

4. Deliver and let projects on time and to cost.
   Capital expenditure during the year was approximately £61 million. Of this, £33 million was invested in Qube, Horseferry House and Arup Phase II. As planned, Qube completed towards the end of the year, and progress has been made with letting. Horseferry House and Arup Phase II, both of which are pre-let, are on course to complete this spring. Capital expenditure for 2008 is forecast to be £100 million.

5. Apply and promote contemporary architecture and forward-thinking techniques through the Derwent London design brand.
   We work with a number of architectural practices to ensure there is a constant flow of new ideas that drive the boundaries of good design. These range from established names to smaller, cutting-edge practices and enable us to nurture talent and push forward imaginative building solutions. These endeavours were recognised during the year with the winning of the 2007 Royal Institute of British Architects (RIBA) Client of the Year Award.

6. Recycle capital for reinvestment when potential is maximised.
   In 2007, property disposals totalled £344 million, net of costs, and achieved outstanding prices, realising a £130 million profit. These were disposals of properties that did not conform with our post-merger strategy and included residential sites, provincial and smaller properties. Where possible they were sold post REIT conversion, thereby improving the after tax return. We will continue to disinvest mature assets to free up capital for selective acquisitions and projects.

Our strategy translated into a property return of 30.1% for 2007, compared to 26.7% in 2006. However, the figure for 2007 is distorted by the level and timing of sales during the year. The corresponding underlying figure is 11.2% with the principal drivers being rental growth and development surplus. Rental values advanced 13.0% during 2007, with the West End achieving 14.6%, albeit that the pace slowed in the second half of the year. With regards to valuations, the yield compression of the first half of the year reversed in the second half as the anticipated correction was exacerbated by the global credit problems in the financial markets. While these remain turbulent, the outlook for yields is uncertain. We are encouraged by tenant enquires in the West End which is relatively insulated from the impact of global financial market turmoil and expect modest rental growth here in 2008. Currently, we have no ownership in the City core.

This year, in addition to following the same six broad objectives set out above, we have also identified specific Key Performance Indicators (KPIs).

Key Performance Indicators (KPIs)

The following KPIs were identified for the group as a traditional property company. As more experience is gained of operating as a REIT, these may be revised to reflect the different metrics of this new environment.

Financial

i) Total return.
   This is calculated as the increase in adjusted net asset value excluding minority interests over the period plus dividends paid during the period divided by the adjusted net asset value excluding minority interests at the start of the period.

   This is the return that management delivers to shareholders and for 2007 was 2.8%.

Property

i) Total property return.
   This measure combines a property's rental and capital return and is calculated by the group in accordance with the formula used by IPD. The group has adopted two targets for this KPI: to exceed the annualised IPD Quarterly Property Index for All UK Property on a three year rolling basis; and to exceed that for Central London Offices on an annual basis.

For the 3 year period ending on 31st December 2007 the group's total property return was 25.6% whilst the All UK Property Index was 10.2%. Annually, the group's total property return was 30.1% whilst the Central London Index was 0.7%.

The group's figures are affected significantly by the sales undertaken to refocus the portfolio in 2007. Excluding these, the group's total property return for the year was 11.2% and for the three year period, 19.2%.

ii) Void management.
The group manages the level of vacant space in its portfolio to ensure an appropriate balance between value enhancing schemes and the associated risk. The related KPI is that the expected rental value of space immediately available for letting must not exceed 10% of the portfolio's reversionary rental value. At the year end, this figure was £7.7 million, equivalent to 4.5% of the portfolio's reversionary rental value.

Environmental

i) Impact of developments.
A target has been adopted for the group to ensure that all developments in excess of 5,000m² are assessed against Building Research Establishment Environmental Assessment Method (BREEAM) and rated very good or above.

Awards

Our commitment to good design and improving the office working environment was rewarded in 2007 with Derwent London winning the RIBA Client of the Year award. The prestigious accolade was for the commissioning of both established and up-and-coming architects to deliver a mix of refurbished and new-built offices throughout London. We also won a RIBA award for 28 Dorset Square, a stylish office project in Marylebone. In April, we won the "Deal of the Year" Property Week Award for the acquisition of LMS and in October, we were also awarded Property Company of the Year – London, from Estates Gazette.

Valuation commentary

The year under review was very much a tale of two halves. The six months to June showed modest yield compression and strong rental growth performance, delivered through healthy tenant demand and historically low vacancy rates. However, the disruptions in the world financial markets in the autumn dramatically changed the outlook for values with the investment market reacting swiftly. This contributed to an increase in yields as the availability of finance became restricted. However, letting activity remained buoyant, especially in the West End, with rents continuing to increase in the second half of the year.

Set against this background, the investment portfolio was valued at £2.7 billion at 31st December 2007.

The valuation surplus for the year was £94.4 million, before lease incentive adjustments of £4.1 million. Properties held throughout the period contributed £54.0 million, a result of strong rental growth which compensated for the increase in yields. In addition, the revaluation of our development properties added a further £50.3 million with a substantial surplus coming from the recently completed Qube development. Other properties in this category were Arup Phases II and III, Horseferry House, Portobello Dock, Gresse Street and Leonard Street. Acquisitions saw a £9.9 million deficit, principally as the associated transaction costs were written off. However, these properties contain exciting planning opportunities and offer potential for significant value enhancement in the future.

The portfolio's underlying valuation uplift was 4.3% compared to 21.6% last year. The West End properties, which represent 72% of the portfolio, achieved a 5.9% increase. Here, good uplifts came from our Belgravia and Victoria properties, which rose by 13.9% and 12.5% respectively. The remaining properties in Central London, 21% of the portfolio, are located on the City borders. The value of these assets increased by 5.3% over the year with a good performance from our Holborn properties at 9.8%, principally due to a strong return at The Johnson Building. Overall, the value of the Central London portfolio increased by 5.8%.

The remaining 7% of the portfolio is located in the provinces and values decreased by 11.2% as valuation yields increased and rental growth was limited. A principal factor in this return was the downgrading in value of Strathkelvin Retail Park in Scotland which comprises just over a third of the provincial portfolio by value. However, we have recently improved the planning use at this bulky goods park and are working on asset management initiatives. Further progress on the disposal of the provincial properties has been made since the year end, with the sale of our Southampton properties.

At 31st December 2007, the portfolio's initial yield, based on the annualised, contracted rental income, net of ground rents, was 4.4%, rising to 6.3% on full reversion. The portfolio's true equivalent yield was 5.7%, showing an increase from 5.4% at the start of the year and 5.3% in June 2007.

Lettings

Managing our vacant space is an important part of the business and the appetite for high quality accommodation was evident through our letting activity. In total, we completed 21,900 sq m of lettings in 81 transactions at a combined rental income of £8.3 million per annum. These were 18% above the valuer's estimated rental values underlying the pro forma valuations, highlighting the group's exceptional performance against market expectations.

Early in the year, the final floor of the 13,900 sq m Johnson Building in Holborn was let at £460 per sq m, rising to a minimum of £480 per sq m on first review. This 1,030 sq m letting achieved a rent 26% above our initial lettings in 2006. This project was fully let in just nine months, a testament to its innovative design and flexible floorplates. Within the same complex, the 540 sq m Sweeps Studios was pre-let and 1,750 sq m was let at 6-7 St Cross Street, the latter achieving rents of up to £375 per sq m which was 27% above the anticipated rental values at the outset of the project.

In February 2007, we completed the 3,600 sq m refurbishment of 186 City Road in the City borders and quickly multi-let the building at a combined annual rental income of just over £1.0 million per annum. The highest rent achieved was £335 per sq m and the overall rental income was 13% above the level initially anticipated.

At Tower House in Covent Garden, a lease paying £375 per sq m was surrendered. The space was re-let in the second half of the year, achieving rents between £700 and £730 per sq m, exceeding the valuer's assessment at June of £540 per sq m.

In October, we completed our largest project of the year – Qube. This high specification building comprises 9,300 sq m of office space and 700 sq m of retail accommodation located on our Fitzrovia Estate, where 23% of the portfolio is held. This project is part of our long term strategy to significantly improve this well known London village which offers attractive office space at approximately half the rents of the West End core of Mayfair. In December, advertising company Aegis Media, leased the 1,750 sq m second floor at the Qube at a rent of £1.1 million per annum, equivalent to £645 per sq m and setting a record rent in Fitzrovia. For our retail strategy, we are targeting specific operators that improve the retail mix at this end of Tottenham Court Road. The first retail unit at Qube has been let to itsu, a fashionable sushi outlet, and again setting a new rental high for this location. The Qube, combined with the nearby Arup development, is helping to make Fitzrovia one of London's fastest improving business locations.

Portfolio management

During the year, we successfully completed the amalgamation of the DVH and LMS portfolios and identified the immediate and future opportunities for asset management initiatives, that the properties offered.

The integration process allowed the group's management practices to be reviewed and refined. Our asset managers have invaluable local knowledge and experience of the designated villages in which they operate. Further value is added through regular asset management meetings that enable us to identify and act upon opportunities across the villages.

In addition to new lettings, 37 rent reviews and 20 lease renewals or regears were completed during the year. As a consequence of this active management, the annualised contracted rental income, net of ground rents, was £117.6 million at the year end. The valuer's estimated rental value of the portfolio was £172.6 million, producing a 47% reversionary potential – highly significant for the future. Of the £55.0 million reversion, £18.4 million was attributable to vacant space and £36.6 million to lease renewal and rent review reversion. Of the vacant space, £7.7 million was immediately available for letting, reflecting a vacancy rate of 4.5% of the portfolio's estimated rental value. The majority of this income potential is from the recently completed Qube development (£5.2 million). The remaining £10.7 million of vacant space comprised redevelopments and refurbishments (excluding pre-lets). This includes the principal current projects, 16-19 Gresse Street and Portobello Dock, which have a combined potential annual rental income of £4.1 million. The balance is made up of smaller, yet important, refurbishments – often single floors within buildings. This activity is complemented by an average unexpired lease length of 9.1 years across the portfolio as a whole with 8.8 years in Central London and 10.1 years in the West End.

As we offer a variety of office space with a wide range of pricing, we have a diverse tenant base thus balancing the portfolio's income. For instance, 36% of our contracted rental income is from professional and business services and 19% is from the media sector. Government and public administration account for 8% whilst the financial sector accounts for a further 7%.

Development programme

An integral part of our business is the management and implementation of our development programme, and we categorise this into three stages:

- Current projects – The scheme is committed and construction is underway.
- Planning consents – Planning permission has been granted but the project is not yet committed.
- Appraisal studies – Planning and viability assessments are underway.

Current projects
During the year we were extremely active in Fitzrovia. We completed the striking £35 million Qube development that is now being marketed and we are well underway with the highly sustainable Arup Phase II and III development. Phase II is scheduled for completion in spring 2008 with Phase III due to be finished in late 2009, bringing the total floor area developed to 13,200 sq m in what is a truly enterprising design that should achieve an excellent BREEAM rating. This development is pre-let to Arup on a 25 year lease at an annual rental income of £2.7 million that rises to £3.6 million on completion of Phase II and to £6.0 million on the completion of Phase III.

In Victoria, Horseferry House will be completed this spring, allowing its new tenant, Burberry, to take possession. The entire 15,200 sq m building was pre-let to the company at the start of the £29 million refurbishment in 2006, and will be a stylish global headquarters for this prestigious company. The imposing 1930s building has been extensively remodelled and modernised with an imposing central atrium - a prime example of Derwent London's design-led approach to workspaces and our commitment to adding to the vitality of an area.

Continuing the theme of regeneration through high-quality design, we have recently commenced work on site at 16-19 Gresse Street, Noho. At this imaginative scheme, we are integrating a new 4,400 sq m office building with residential accommodation, linked by an attractive public space, and we expect to transform this area into a bustling and lively destination. Completion is due in early 2009 and rents in this locality are presently around £645 per sq m.

Elsewhere, we have taken an innovative approach at Portobello Dock in Ladbroke Grove. We are nearing completion in transforming a redundant group of canal-side buildings into an unusual mixed-use development. This will comprise a new office building of 2,200 sq m, refurbished office spaces totalling 2,400 sq m, and 19 attractive waterside apartments. These residential units were recently pre-sold in 2008 for £12.6m.

Planning consents

To ensure that we can continue to deliver, when appropriate, our individual brand of space to the market, we have significantly added to our planning consents over the last twelve months. Major consents now total 84,600 sq m reflecting a 114% increase over the existing floor area of 39,500 sq m. These properties produce an annual rental income of £8.5 million and their varying lease expiries and break options offer significant flexibility for implementation.

The largest planning permission is for the redevelopment of North Wharf Road in Paddington. After detailed and lengthy negotiations, permission has been obtained for a truly innovative office building of 22,300 sq m with 270 sq m of retail. This is complemented by a separate 6,800 sq m residential building which will provide 100 residential units, of which 16 will be designated affordable housing. The buildings will enjoy a canal-side setting thereby providing an attractive environment for both office and residential occupiers, while Paddington’s excellent transport connections more than justify the area’s status as a major West End location. The existing buildings, totalling 7,800 sq m, produce an annual income of £1.7 million and, subject to detailed design and tenure restructuring, there is the potential to commence on site from 2010.

Following a lease restructure with the tenant BT, at the Angel Building in Islington, we now have possession of the property. In February 2008, planning permission was granted for a comprehensive refurbishment and extension that will increase the size of the building by 58%, from 15,000 sq m to 23,700 sq m. This will be an exceptional office building in an improving location close to Kings Cross and is illustrative of Derwent London’s talent for creating attractive workspaces at competitive rents in some of London’s most vibrant villages.

A refined planning consent has recently been gained at Wedge House in the Southbank area. The tired, 1950s office building of 3,600 sq m can be replaced by a substantially larger new development of 7,500 sq m. This is a rapidly improving location, where several other mixed-use developments promise to significantly raise the area’s profile. Vacant possession can be obtained in June 2008.

At 18-30 Leonard Street we have a planning permission for a 1,900 sq m office development and 47 residential units totalling 3,200 sq m. Work is scheduled to start on site later this year. The building features a refreshingly contemporary design that reflects the site’s enviable position on the edge of the City, yet also close to the lively streets of Shoreditch.

At the Turnmill in Clerkenwell, planning permission has been granted to convert the former Victorian stables into 6,000 sq m of interesting office space, representing a 44% increase in floor area. Also, in Clerkenwell, we have permission for a 3,400 sq m refurbishment at 20-26 Rosebery Avenue.

Finally, in February 2008, planning permission was obtained to replace three, multi-let properties at 40 Chancery Lane, Holborn, with a 9,500 sq m building set around a tranquil courtyard.

Appraisal studies

As part of the development process, the appraisal stage enables us to consider a number of options for a building that could lead to a planning consent and ultimately to a current project.

There are several major projects at the early stage in the appraisal process where our architectural and viability studies are being advanced. These could be some of our biggest developments over the next decade.

In partnership with the freeholder Grosvenor, we have appointed architects to look at the redevelopment of 1-5 Grosvenor Place. This has the potential to be a unique project in Belgravia, one of London's most prestigious locations. The initial design studies envisage a building that could substantially increase the existing floor area of 15,000 sq m. One option is for several floors of high quality office space set around a central atrium with residential at higher levels. These could potentially be some of the West End's most desirable addresses, enjoying an unparalleled location with unmatched views over Green Park.

At another prestigious location, our studies are evolving for the redevelopment of Riverwalk House, Millbank. Here, there is the potential for high quality residential accommodation, with exceptional views of the River Thames. Massing studies show scope for a scheme in the order of 18,600 sq m, a substantial uplift on the existing 6,900 sq m building. In the interim, both Riverwalk House and Grosvenor Place are fully let and produce annual rental income of £7.5 million.

Further into the future, plans are advancing for our holdings on Charing Cross Road, following the Government's recent progress on the Crossrail transport project. Together with Crossrail, we are leading the design for a major redevelopment of Tottenham Court Road underground station which will become one of London's most strategic transport interchanges. Ultimately, we will have the option to develop this important West End commercial site. Detailed negotiations are ongoing with a wide range of organisations to take this complex project forward, and we are in an ideal position with a controlling role in the regeneration of this location.

One of the difficulties with the planning process is that even with the planning officer's recommendation for approval, consent is not always automatic. These were the circumstances in which planning permission was refused for an office and residential scheme on our City Road Estate in July 2007. However, we are now working on a revised proposal with the intention of resubmitting a planning application in 2008. The existing buildings continue to provide an annual income of £1.0 million and we are confident that we will deliver an exciting development in this prominent and improving location.

Disposals

One of the clear strategies set out at the time of the LMS acquisition was the disposal of those properties that did not adhere with the group's objectives. These fell into three categories; London development sites, provincial properties and smaller holdings. During the year, we implemented an extremely successful disposal programme that was substantially completed before the investment market became turbulent.

Disposals for the year totalled £344 million, net of costs, with the majority in the second half of the year, post REIT conversion. These achieved an exceptional £130 million surplus above book value with an exit yield of 1.7% based on an annual rental income of £5.7 million.

The most significant disposal was of an eight acre residential site at Greenwich Reach, SE10 for £109.9 million, more than twice the book value. Much of this uplift was the result of the group reducing both the planning and commercial risks associated with the site. Other significant London transactions included the £44.3 million sale of 160-166 Brompton Road, SW3 which had residential potential and the sale of the vacant Argosy House, W1 and 3-4 South Place, EC2, which achieved £22.4 million and £18.0 million respectively.

Of the provincial assets, disposals included retail centres in Brighton (£19.5 million) and Farnham (£31.8 million), the latter being held in our joint venture with the Portman Estate.

We intend to make further disposals of our remaining provincial properties and small, management intensive assets, thereby allowing us to focus on our major Central London holdings. Since the year-end, we have sold all of our buildings in Southampton for £18.95 million excluding costs, in line with the December 2007 valuation.

Acquisitions

We made a number of selective acquisitions throughout the year, totalling £141.5 million after costs, where our key requirements of low passing rents with significant scope for asset management and future planning potential were all met.

The principal acquisition was 132-142 Hampstead Road, NW1 for £54.9 million in September 2007. The property comprises several fully let buildings, totalling 21,500 sq m' with an annual rental income of £2.0 million, on a prominent 1.85 acre site located in what is an emerging part of the West End, adjacent to Euston Station. Being close to our Fitzrovia Estate, there is also the potential for beneficial planning synergy.

A similar planning opportunity was identified at 43 and 45-51 Whitfield Street, W1 which were acquired for £16.9 million in December. These two buildings, totalling 2,500 sq m, produce an aggregate rent of £0.7 million per annum with the leases expiring in June 2008. They occupy a strategic position in the heart of our Fitzrovia holdings and represent an opportunity for redevelopment and, possibly, incorporation into our major regeneration plans for the area.

Also in the West End, Castle House, W1 was acquired for £21.0 million in May. This attractive multi-let corner office building in Noho is let at a low average passing rent of £255 per sq m and has excellent active management potential. This is a location where the rental level for quality office refurbishments is around £650 per sq m so there is a significant refurbishment opportunity in due course.

Finally, Woodbridge House, EC1 was acquired for £48.7 million in August. This 7,000 sq m office building is let to solicitors Pinsent Masons at a rent of £350 per sq m and has excellent reversionary potential together with an opportunity to extend the building when the lease expires in 2015.

The group is financially well positioned to make further similar acquisitions, particularly where it sees opportunities created by the current market conditions.

Financial review

The group's results are prepared in compliance with International Financial Reporting Standards (IFRS) and the accounting policies set out in note 1 to the accounts. However, the investment community makes a number of adjustments to key IFRS figures. It is the adjusted figures that the board also uses in monitoring performance and these are included in this review.

The results for 2007 incorporate 11 months for LMS which was acquired with effect from 1st February 2007. The acquisition was financed by the issue of 46,910,232 Derwent London ordinary shares, £32.5 million of loan notes, and a cash payment of £12.2 million. The acquired goodwill of £353.3 million has been expensed in the group income statement after the impairment tests required by IAS 36 were applied. The rationale for this can be found in the note headed acquisition of subsidiaries.

Results commentary

The headline numbers from the results are shown below followed by a commentary which highlights the make-up of these key numbers. The figures for the prior year, as noted above, do not include any results for LMS:

	2007	2006
Net property income (£m)	103.8	58.0
Recurring profit before taxation (£m)	38.0	16.4
(Loss)/profit before taxation (£m)	(99.8)	242.8
Diluted recurring earnings per share* (p)	34.99	27.21
Adjusted net asset value per share* (p)	1,801	1,770

* After minority interests

Net property income

- Gross property income, mainly rent receivable from tenants, rose £60.4 million to £111.7 million in 2007, with a net £54.4 million of the increase coming from properties acquired with LMS. Income from the DVH properties and 2007 acquisitions increased by £6.0 million to £57.3 million. Within this, lettings added £8.2 million, the main contributions being £3.6 million from the recently completed Johnson Building and £1.1 million from short lets at North Wharf Road, pending its redevelopment. Voids, predominantly from properties under refurbishment or redevelopment, reduced the rent roll by £3.3 million. With the exception of £1.0 million at Horseferry House, the voids were spread over a number of properties. Rent from recent acquisitions at £3.2 million exceeded that lost due to disposals by £2.0 million.

- Net property expenditure on the enlarged portfolio for the year was £9.9 million, compared with £4.9 million in 2006. Void costs were £4.7 million against £2.2 million last year and transaction costs, which reflect letting and rent review activity, increased from £2.1 million to £3.6 million. Other miscellaneous property costs increased by £1.0 million.

- Therefore, the net result of letting property for 2007 was an income of £101.8 million. The final component of net property income is the development profit that the group has earned from the Telstar redevelopment carried out on behalf of Prudential. The redevelopment is now complete and a further £2.0 million of profit has been earned in 2007 in addition to the £11.6 million taken to the group income statement in 2006, to give £13.6 million in total. This is a successful outcome for Telstar House which had been sold to the Prudential in 2005 with Derwent undertaking the redevelopment and retaining a profit share valued upon practical completion. At the interim results stage, the profit earned was calculated at £6.8 million, but rising property yields by December led to a fall in the final valuation of the property and therefore a reduction in the estimated final profit.

Administrative expenses

- Turning to overheads, administrative expenses excluding goodwill write off for 2007 are £17.9 million, but this is after a credit of £1.6 million following the valuation of the LMS cash-settled share options. However, the grossed up figure of £19.5 million still shows a saving over the combined overheads of the DVH and LMS groups prior to the merger, and the second half charge of £9.1 million compares favourably with that in the first half of £10.4 million. Employment costs are the group's biggest overhead and account for £11.7 million of the total costs. With an enlarged portfolio to manage, the average number of employees during the year, excluding directors, has risen from 23 in 2006 to 56 in 2007.

Net finance costs

- While little of the consideration paid for LMS was in cash, the LMS group brought with it £501 million of debt at fair value. Consequently, finance costs have shown a substantial rise from £20.4 million to £49.1 million, partially offset by a rise in finance income of £2.4 million. The company's hedging policy, and the nature of its bank loans, meant that approximately 75% of the company's debt was protected from the artificially high LIBOR interest rates in the last five months of 2007.

Recurring profit before taxation

- Distilling the above into one figure, but excluding development income, the recurring profit before taxation was £38.0 million which compares with the 2006 result for DVH alone of £16.4 million, an increase of 132%.

Loss before taxation

- Listed below are a number of other items in the group income statement which reconcile the recurring profit to the IFRS defined loss before taxation of £99.8 million. These are a mixture of the by now usual adjustments and those associated with the LMS acquisition.

    - The group revaluation surplus for the year of £90.3 million.
    - The profit on disposal of property and investments of £130.1 million, including those realised in a joint venture.
    - The negative movement in the fair value of derivative financial instruments of £5.1 million.
    - The Telstar development income of £2.0 million discussed above.
    - The write-off of the acquired goodwill of £353.3 million following the impairment tests carried out in accordance with IFRS.
    - Net exceptional finance costs of £1.8 million, being the cost of the acquisition facility less a profit on redemption of a debenture.

Tax credit

On 1st July 2007, Derwent London converted to REIT status. This generated a conversion charge of £53.6 million, which was provided for in the half year results and is payable in 2008, and also allowed most of the deferred tax liability to be credited back to the group income statement. In addition, there is a corporation tax charge for the year of £33.5 million which arises from the first half year prior to REIT conversion, and residual tax in the second half on assets outside the REIT "ring fence".

Earnings per share

Diluted recurring earnings per share rose to 34.99p from 27.21p in 2006, an increase of nearly 29%. This compares with the increase in the dividend of 53% from 14.75p per share to 22.5p. This has been achieved partly by distributing the major part of the tax savings arising in the second half due to the company's REIT status.

Net assets

Net assets attributable to equity shareholders at 31st December 2007 were £1,782.0 million compared with £783.4 million at the end of 2006. The group's property portfolio was valued at £2.7 billion at the year end as has been discussed earlier. The adjusted net asset value per share, excluding minority interests, has risen 139p to 1,801p per share compared with the proforma balance sheet figure upon acquisition of LMS of 1,662p per share. The equivalent adjusted net asset value per share for DVH at December 2006 was 1,770p. The adjustments made to arrive at the above figures are shown in the notes to the accounts.

Cash flow

Following the acquisition, and the board's stated intention of realising some of the acquired assets, it is not surprising that there was a cash inflow in 2007 of £84.4 million compared with an outflow of £59.4 million in 2006. However, these total figures require some interpretation. The cash inflow from operational activities was £28.4 million compared with an outflow of £5.6 million in 2006. There was also a net inflow from the group's investing activities of £85.2 million after adding back £16.0 million of LMS's pre acquisition costs paid after 1st February. This inflow was due to the level of disposals subsequent to the LMS acquisition which, in total, realised £352.4 million, with a further £5.7 million received from the sale of a property held in a joint venture. Part of these proceeds was reinvested in the business with the acquisition of new properties totalling £140.7 million and with capital expenditure absorbing £68.3 million. The remainder has been used to reduce group debt. The only other notable figure in investing activities is the cash cost of the LMS acquisition which amounted to £38.4 million. Finally, dividends paid out to shareholders totalled £13.2 million compared with £7.5 million in 2006, the rise due to the increased number of shares in issue and the substantial increase in the 2007 interim dividend.

Debt and sources of finance

The total of net debt at the 2007 year end was £782.8 million compared with the equivalent figure for 2006 of £349.8 million, and that shown in the interim balance sheet of £947.6 million. The nominal value of this net debt was £753.9 million, the difference being the fair value less costs of the LMS bond and the leasehold liabilities. The fall in borrowings in the second half of the year was due to the disposals mentioned above with all but £34.3 million of the proceeds received in this period. The reduction in both borrowings and net assets has left balance sheet gearing at 42.5% compared with that at the half year of 49.1%. However, in terms of the group's risk profile, the more important profit and loss gearing ratio has been restored to a more normal level of 1.81 after it had fallen at the interim stage, following the acquisition, to 1.50. The figure of 1.81 compares with that in 2006, prior to the acquisition, of 1.85. To complete the debt ratios, property gearing (nominal debt divided by the fair value of investment properties) at December 2007 was 28% compared with 27% at the prior year end. This is substantially under half of what a typical conservative bank covenant would be and it demonstrates both the soundness of the Derwent London balance sheet and the potential financial resources available to the group.

The group's financing philosophy has been "keep it simple, keep it flexible". Both Derwent and LMS were financed in a similar manner, so the philosophy has not changed since the acquisition. LMS added a syndicated £375 million term and revolving facility, and a long term fixed rate secured bond, to DVH's four bilateral revolving facilities. All the banks provide committed facilities and the group continues to borrow on a secured basis. Financial covenants are security specific and not corporate based. The flexibility of the revolving credit loans was demonstrated in 2007 with these absorbing disposal proceeds of approximately £350 million while remaining available to satisfy the demands of acquiring £141 million of property. At 31st December 2007, committed bank facilities totalled £918 million of which £370 million was undrawn. This level of available resources provides both comfort and opportunity in the current economic environment. Only one major facility amounting to £100 million is due for renewal in 2008 (November). Close relationships are maintained not only with existing lending banks but also a second tier to satisfy future debt requirements.

GROUP INCOME STATEMENT

	Note	**2007 £m**	2006 £m
Gross property income	2	**111.7**	51.3
Development income	2	**2.0**	11.6
Property outgoings	3	**(9.9)**	(4.9)
Net property income		**103.8**	58.0
Administrative expenses		**(19.5)**	(10.1)
Movement in valuation of cash-settled share options		**1.6**	-
Goodwill impairment	11	**(353.3)**	-
Revaluation surplus		**90.3**	223.3
Profit on disposal of properties	4	**129.8**	2.9
Profit on disposal of investments		**1.0**	-
(Loss)/profit from operations		**(46.3)**	274.1
Finance income	5	**2.8**	0.4
Exceptional finance income	5	**1.5**	-
Finance costs	5	**(49.1)**	(20.4)
Exceptional finance costs	5	**(3.3)**	(18.1)
Movement in fair value of derivative financial instruments		**(5.1)**	3.2
Share of results of joint ventures	6	**(0.3)**	3.6
(Loss)/profit before tax		**(99.8)**	242.8
Tax credit/(expense)	7	**200.7**	(60.6)
Profit for the year		**100.9**	182.2
Attributable to:			
Equity shareholders	15	**97.0**	182.2
Minority interests	15	**3.9**	-
Earnings per share attributable to equity shareholders	8	**100.55p**	340.13p
Diluted earnings per share attributable to equity shareholders	8	**100.11p**	337.21p

GROUP BALANCE SHEET

	Note	**2007 £m**	2006 £m
Non-current assets			
Investment property	9	**2,654.6**	1,274.0
Property, plant and equipment	10	**1.4**	0.3
Investments		**5.1**	5.4
Pension scheme surplus		**2.8**	-
Derivatives	13	**1.2**	0.1
Other receivables		**23.3**	13.7
		2,688.4	1,293.5
Current assets			
Trading property	12	**9.4**	-
Trade and other receivables		**61.0**	39.4
Corporation tax asset		**-**	1.4
Cash and cash equivalents		**10.3**	-
		80.7	40.8
Non-current assets held for sale		**3.4**	-
		84.1	40.8
Total assets		**2,772.5**	1,334.3
Current liabilities			
Bank overdraft and loans	13	**(120.6)**	(2.2)
Trade and other payables		**(48.0)**	(32.5)
Corporation tax liability		**(75.4)**	-
Provisions		**(0.5)**	(0.1)
		(244.5)	(34.8)
Non-current liabilities			
Borrowings	13	**(672.5)**	(347.6)
Provisions		**(2.8)**	(1.3)
Deferred tax liability	14	**(10.8)**	(167.2)
		(686.1)	(516.1)
Total liabilities		**(930.6)**	(550.9)
Total net assets		**1,841.9**	783.4
Equity	15		
Share capital		**5.0**	2.6
Share premium		**157.0**	156.1
Other reserves		**914.0**	3.8
Retained earnings		**706.0**	620.9
Attributable to equity holders of the parent company		**1,782.0**	783.4
Minority interests		**59.9**	-
Total equity		**1,841.9**	783.4
Adjusted net asset value per share	17	**1,862p**	1,770p
Adjusted net asset value per share after minority interests	17	**1,801p**	1,770p

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2007 £m	2006 £m
Profit for the year	**100.9**	182.2
Deferred tax in respect of share-based payments	**-**	0.6
Actuarial gain on defined benefits pension scheme	**1.3**	-
Foreign currency translation	**(0.6)**	-
Total recognised income and expense relating to the year	**101.6**	182.8
Attributable to:		
Equity shareholders	**97.7**	182.8
Minority interests	**3.9**	-

CHANGE IN SHAREHOLDERS' EQUITY

	2007 £m	2006 £m
Total recognised income and expense relating to the year	**97.7**	182.8
Dividends paid	**(13.2)**	(7.5)
Issue of shares	**2.4**	-
Premium on issue of shares	**911.4**	1.0
Share-based payments transferred to reserves	**0.3**	0.9
	998.6	177.2
Shareholders' equity at 1st January	**783.4**	606.2
Shareholders' equity at 31st December	**1,782.0**	783.4

GROUP CASH FLOW STATEMENT

	Note	**2007 £m**	2006 £m
Operating activities			
Cash received from tenants		**111.9**	48.7
Direct property expenses		**(10.1)**	(5.5)
Cash paid to and on behalf of employees		**(10.2)**	(4.5)
Other administrative expenses		**(8.8)**	(3.9)
Interest received		**2.5**	0.4
Interest paid		**(53.4)**	(21.9)
Exceptional financing costs	20	**(3.3)**	(17.6)
Tax expense paid in respect of operating activities		**(0.2)**	(1.3)
Net cash from/(used in) operating activities		**28.4**	(5.6)
Investing activities			
Acquisition of investment properties		**(140.7)**	(48.9)
Capital expenditure on investment properties		**(65.1)**	(18.9)
Disposal of investment properties		**233.2**	31.2
Capital expenditure on assets under construction		**(3.2)**	-
Disposal of assets under construction		**110.1**	-
Purchase of property, plant and equipment		**(0.2)**	(0.2)
Disposal of property, plant and equipment		**0.3**	-
Disposal of investments		**9.1**	-
Distributions received from joint ventures		**5.7**	-
Payments in relation to joint ventures		**(0.3)**	-
Acquisition of subsidiaries (net of cash acquired)		**(38.4)**	(6.6)
Payment of subsidiary's pre-acquisition expenses	20	**(16.0)**	-
Advances to minority interest holder		**(14.3)**	-
Tax expense paid in respect of investing activities		**(11.0)**	(2.9)
Net cash from/(used in) investing activities		**69.2**	(46.3)
Financing activities			
Movement in bank loans		**(83.3)**	78.5
Movement in loan notes		**32.0**	-
Redemption of debenture		**(26.6)**	(35.0)
Net proceeds of share issues		**0.1**	1.0
Dividends paid		**(13.2)**	(7.5)
Net cash (used in)/from financing activities		**(91.0)**	37.0
Increase/(decrease) in cash and cash equivalents in the year		**6.6**	(14.9)
Cash and cash equivalents at the beginning of the year		**(2.2)**	12.7
Cash and cash equivalents at the end of the year		**4.4**	(2.2)

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The results for the year ended 31st December 2007 include those for the holding company and all of its subsidiaries, together with the group's share of the results of its joint ventures. The results are prepared on the basis of the accounting policies set out in the 2006 annual report and financial statements with the addition of the policies below. These new policies relate to asset and liability classes arising as a result of the acquisition of London Merchant Securities plc.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Assets under construction

Property assets acquired with the intention of subsequent development as investment properties are included as "Assets under construction" within property, plant and equipment, until the construction or development is completed, at which time they are reclassified as investment properties. Assets under construction are included in the balance sheet at fair value, determined by an independent valuer on the same basis as used for investment properties. If the fair value increases, this increase is credited directly to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset which previously had been charged to the group income statement. If the fair value decreases, this decrease is recognised in the group income statement, except to the extent that it reverses previous revaluation increases of the same asset which have been credited to the revaluation reserve, in which case it is charged against the revaluation reserve.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed, and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification;

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

Trading property

Trading property includes those properties which were acquired exclusively with a view to resale or development and resale and are held at the lower of cost and net realisable value.

Employee benefits

(i) Pensions

a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the group income statement in the period to which they relate.

b) Defined benefit plans

The group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the statement of recognised income and expense.

(ii) Cash-settled share-based remuneration

For cash-settled share-based payments, a liability is recognised based on the current fair value determined at each balance sheet date. The movement in the current fair value is taken to the group income statement.

2. Income

Gross property income includes surrender premiums received from tenants during 2007 of £5.7 million (2006 - £1.0 million).

The development income of £2.0 million (2006 - £11.6 million) is the proportion of the total profit share estimated to have been earned by the group from the construction and letting of a property on behalf of a third party.

3. Property outgoings

	2007 £m	2006 £m
Ground rents	**0.4**	0.4
Other property outgoings	**9.5**	4.5
	9.9	4.9

4. Profit on disposal of properties

	2007 £m	2006 £m
Investment property		
Disposal proceeds	**233.6**	31.2
Carrying value	**(157.4)**	(30.7)
Leasehold liabilities	**-**	2.4
	76.2	2.9
Assets under construction		
Disposal proceeds	**109.9**	-
Carrying value	**(56.3)**	-
	53.6	-
Total		
Disposal proceeds	**343.5**	31.2
Carrying value	**(213.7)**	(30.7)
Leasehold liabilities	**-**	2.4
	129.8	2.9

The profit of £129.8 million includes £112.6 million which relates to properties acquired as part of the acquisition of London Merchant Securities plc (see note 11).

5. Finance income and costs

	2007 £m	2006 £m
Finance income		
Interest on development funding	**1.1**	-
Return on pension plan assets	**0.6**	-
Foreign exchange gain	**0.4**	-
Bank interest received	**0.1**	0.4
Other	**0.6**	-
	2.8	0.4
Exceptional finance income		
Profit on redemption of debentures	**1.5**	-
Total finance income	**4.3**	0.4
Finance costs		
Bank loans and overdraft wholly repayable within five years	**27.0**	12.7
Bank loans not wholly repayable within five years	**9.4**	3.7
Loan notes	**1.5**	-
Secured bond and debenture	**9.9**	3.1
Mortgages	**0.1**	-
Finance leases	**0.6**	0.9
Pension interest costs	**0.5**	-
Other	**0.1**	-
	49.1	20.4
Exceptional finance costs		
Cost of acquisition facility	**3.3**	-
Loss on redemption of debentures	**-**	18.1
	3.3	18.1
Total finance costs	**52.4**	38.5

An exceptional profit of £1.5 million arose following the payment of a £6.6 million premium on the redemption of a debenture. The debenture was fair valued at £8.1 million on the acquisition of London Merchant Securities plc. Exceptional finance costs in 2006 arose from the redemption of the 10 1/8% First Mortgage Debenture Stock 2019.

6. Share of results of joint ventures

	2007 £m	2006 £m
Loss from sale of investment property	**(0.7)**	-
Revaluation surplus	**-**	3.5
Other profit from operations after tax	**0.4**	0.1
	(0.3)	3.6

7. Tax (credit)/expense

	2007 £m	2006 £m
Corporation tax expense/(credit)		
UK corporation tax and income tax on profits for the year	**33.5**	0.7
REIT conversion charge	**53.6**	-
Adjustment for under/(over) provision in prior years	**0.3**	(1.0)
	87.4	(0.3)
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(287.4)**	60.6
Changes in tax rates	**(0.7)**	-
Adjustment for under provision in prior years	**-**	0.3
	(288.1)	60.9
	(200.7)	60.6

The tax for both 2007 and 2006 is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2007 £m	2006 £m
(Loss)/profit before tax	**(99.8)**	242.8
Expected tax (credit)/expense based on the standard rate of corporation tax in the UK of 30% (2006 - 30%)	**(29.9)**	72.8
Indexation relief on investment properties	**-**	(11.1)
Difference between tax and accounting profit on disposals	**(9.4)**	0.2
Goodwill impairment	**106.0**	-
REIT conversion charge	**53.6**	-
Revaluation gain attributable to REIT properties	**(24.1)**	-
Deferred tax released as a result of REIT conversion	**(288.7)**	-
Other differences	**(8.5)**	(0.6)
Tax (credit)/expense on current year's profit	**(201.0)**	61.3
Adjustments in respect of prior years' tax	**0.3**	(0.7)
	(200.7)	60.6
Tax credited directly to reserves		
Deferred tax on share-based payments	**-**	(0.6)

8. Earnings per share attributable to equity shareholders

	Profit for the year £m	Weighted average number of shares '000	Earnings per share p
Year ended 31st December 2007	97.0	96,473	**100.55**
Adjustment for dilutive share-based payments	-	418	**(0.44)**
Diluted	97.0	96,891	**100.11**
Year ended 31st December 2006	182.2	53,567	340.13
Adjustment for dilutive share-based payments	-	464	(2.92)
Diluted	182.2	54,031	337.21
Year ended 31st December 2007	97.0	96,473	**100.55**
Adjustment for:			
Disposal of property and investments	(98.2)	-	**(101.79)**
Disposal of joint venture property	0.7	-	**0.72**
Group revaluation surplus	(89.0)	-	**(92.26)**
Fair value movement in derivative financial instruments	5.1	-	**5.28**
Deferred tax released as a result of REIT conversion	(288.7)	-	**(299.25)**
REIT conversion charge	53.6	-	**55.56**
Goodwill impairment	353.3	-	**366.22**
Development income	(1.4)	-	**(1.45)**
Exceptional finance income and costs	(1.2)	-	**(1.24)**
Minority interests in respect of the above	2.7	-	**2.80**
Recurring	33.9	96,473	**35.14**
Adjustment for dilutive share-based payments	-	418	**(0.15)**
Diluted recurring	33.9	96,891	**34.99**
Year ended 31st December 2006	182.2	53,567	340.13
Adjustment for:			
Deferred tax on capital allowances	2.7	-	5.04
Disposal of investment properties	(1.7)	-	(3.17)
Group revaluation surplus	(167.0)	-	(311.76)
Share of joint ventures' revaluation surplus	(2.9)	-	(5.41)
Exceptional finance costs	12.7	-	23.71
Development income	(8.1)	-	(15.12)
Fair value movement in derivative financial instruments	(3.2)	-	(5.98)
Recurring	14.7	53,567	27.44
Adjustment for dilutive share-based payments	-	464	(0.23)
Diluted recurring	14.7	54,031	27.21

The recurring earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, the profit or loss arising from the disposal of properties and investments, the development income, and any exceptional costs and income in order to show the underlying trend. In addition, the conversion charge and the release of deferred tax related to the transfer to REIT status, and the impairment of goodwill resulting from the acquisition of London Merchant Securities plc have been excluded. For the 2006 figures, the recurring earnings per share figure also excludes the deferred tax charge in respect of capital allowances claimed on the basis that it was unlikely that a liability would ever crystallise.

9. Investment property

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1st January 2007	1,025.2	248.8	1,274.0
Arising on acquisition of subsidiary	1,104.6	141.0	1,245.6
Additions	177.6	24.9	202.5
Disposals	(151.2)	(6.2)	(157.4)
Revaluation	67.9	22.4	90.3
Movement in grossing up of headlease liabilities	-	(0.4)	(0.4)
At 31st December 2007	**2,224.1**	**430.5**	**2,654.6**
Carrying value			
At 1st January 2006	724.2	291.4	1,015.6
Transfer	38.5	(38.5)	-
Additions	76.1	0.9	77.0
Disposals	(10.3)	(20.4)	(30.7)
Revaluation	196.7	26.6	223.3
Movement in grossing up of headlease liabilities	-	(11.2)	(11.2)
At 31st December 2006	1,025.2	248.8	1,274.0
At 31st December 2007			
Fair value	2,249.0	422.7	2,671.7
Adjustment for rents recognised in advance	(24.9)	(1.2)	(26.1)
Adjustment for grossing up of headlease liabilities	-	9.0	9.0
Carrying value	2,224.1	430.5	2,654.6
At 31st December 2006			
Fair value	1,039.7	243.0	1,282.7
Adjustment for rents recognised in advance	(14.5)	(0.8)	(15.3)
Adjustment for grossing up of headlease liabilities	-	6.6	6.6
Carrying value	1,025.2	248.8	1,274.0

The investment properties were revalued at 31st December 2007 by external valuers, on the basis of market value as defined by the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued properties to a value of £2,647.9 million (2006 - CB Richard Ellis Limited: £1,040.9 million; Keith Cardale Groves (Commercial) Limited: £241.8 million); other valuers £23.8 million (2006 - £nil).

At 31st December 2007, the historical cost of investment property owned by the group was £1,990.7 million (2006 - £688.9 million).

10. Property, plant and equipment

	Assets under construction £m	Plant and equipment £m	Total £m
Net book value			
At 1st January 2006	-	0.4	0.4
Additions	-	0.2	0.2
Disposals	-	(0.2)	(0.2)
Depreciation	-	(0.1)	(0.1)
At 31st December 2006	-	0.3	0.3
Arising on acquisition of subsidiary	53.1	1.6	54.7
Additions	3.2	0.2	3.4
Disposals	(56.3)	(0.5)	(56.8)
Depreciation	-	(0.2)	(0.2)
At 31st December 2007	**-**	**1.4**	**1.4**
Net book value at 31st December 2007			
Cost or valuation	-	3.1	3.1
Accumulated depreciation	-	(1.7)	(1.7)
	-	1.4	1.4
Net book value at 31st December 2006			
Cost or valuation	-	1.2	1.2
Accumulated depreciation	-	(0.9)	(0.9)
	-	0.3	0.3

11. Acquisition of subsidiaries

The whole of the issued share capital of London Merchant Securities plc, a property investment company, was acquired on 1st February 2007 for a total cost of £965.6 million.

Cost of acquisition:

	£m
Equity	912.9
Loan notes	32.5
Cash	12.2
Directly attributable acquisition costs	8.0
	965.6

The equity consideration was satisfied by Derwent London plc issuing 46,910,232 ordinary shares at a price of £19.46 on 1st February 2007. This was the closing market price of Derwent Valley Holdings plc 5p ordinary shares on 31st January 2007. This issue price consists of the nominal value of the ordinary shares of £0.05 and a share premium of £19.41.

Directly attributable acquisition costs are those charged by the company's advisers in performing due diligence activities and producing the acquisition documents.

The net assets acquired at 1st February 2007 were:

	Book value of assets acquired £m	Fair value of assets acquired £m
Non-current assets		
Investment property	1,245.6	1,245.6
Property, plant and equipment	53.9	54.7
Investments	18.0	17.5
Pension scheme surplus	1.4	1.4
Deferred tax asset	12.0	12.0
Derivatives	6.1	6.1
Other receivables	6.2	6.2
	1,343.2	1,343.5
Current assets		
Trading property	1.3	9.4
Trade and other receivables	9.4	8.8
Cash and cash equivalents	13.9	13.9
	24.6	32.1
Total assets	1,367.8	1,375.6
Current liabilities		
Bank loans	(4.6)	(4.6)
Trade and other payables	(39.8)	(40.9)
	(44.4)	(45.5)
Non-current liabilities		
Borrowings	(480.4)	(510.6)
Deferred tax liability	(148.8)	(144.4)
Other	(6.8)	(6.8)
	(636.0)	(661.8)
Total liabilities	(680.4)	(707.3)
Total net assets acquired	687.4	668.3
Minority interests	(56.0)	(56.0)
Attributable to equity holders of the parent company	631.4	612.3
Goodwill on acquisition		353.3
Cost of acquisition		965.6

The goodwill on acquisition disclosed above differs from that in the interim results of £297.3 million due to an amendment to the treatment of minority interests on consolidation.

Adjustments from book value to fair value include those arising from the fair value adjustments to property, plant and equipment, trading property, deferred tax and debt. Adjustments arising from the application of Derwent London's accounting policies have been made to the book value figures.

A detailed review of the existence of intangible assets, other than goodwill, has been concluded, and none were found to have any material value. An impairment test has been carried out on the goodwill arising on the acquisition.

The properties acquired on the acquisition of London Merchant Securities plc complement the existing portfolio of properties held by the group. It is anticipated that the group will be capable of deriving significantly enhanced cashflows from the acquired property portfolio due to lease management, refurbishment and redevelopment opportunities, which can be implemented in the future. While the amount that the group has paid for London Merchant Securities plc is justified by these anticipated enhancements and benefits that will be brought to the group, IAS 36, Impairment of Assets, does not permit such enhancements to be included in the cashflows used in estimating value in use for the purposes of impairment testing, and instead requires the cashflows to be based on the assets in their current condition.

In addition, the benefits arising from the acquired portfolio are specific to the group and, consequently, the fair value, less costs to sell, of the acquired business does not support the carrying amount of the goodwill associated with the acquisition.

As a consequence, the goodwill associated with this transaction is deemed to be fully impaired and has been written off to the group income statement.

If the date for this acquisition had been 1st January 2007, the gross property income for the combined entity would have increased by £4.6 million. As the fair value adjustments and adjustments arising from the application of Derwent London’s accounting policies, made above, have not been made to the results of London Merchant Securities plc for 31st December 2006, it is impractical to assess the impact on the profit for the period arising from a 1st January 2007 acquisition date. The profit for the year ended 31st December 2007 of £100.9 million, which is after recognising the £353.3 million of goodwill impairment, includes post acquisition profits of £203.0 million for London Merchant Securities plc.

12. Trading property

The fair value of trading property at 31st December 2007 is the same as the book value.

13. Derivatives and borrowings

	2007	2006
	£m	£m
Non-current assets		
Derivative financial instruments	**1.2**	0.1
Current liabilities		
Bank loans	**113.4**	-
Unsecured loans	**1.3**	-
Overdraft	**5.9**	2.2
	120.6	2.2
Non-current liabilities		
6.5% secured bond 2026	**194.9**	-
Loan notes	**32.0**	-
Bank loans	**434.0**	341.0
Mortgages	**2.2**	-
Unsecured loans	**0.4**	-
Leasehold liabilities	**9.0**	6.6
	672.5	347.6
Net derivatives and borrowings	**791.9**	349.7

14. Deferred tax liability

	Revaluation surplus £m	Capital allowances £m	Other £m	Total £m
At 1st January 2007	150.2	16.3	0.7	167.2
Arising on acquisition of subsidiary	135.9	7.8	(11.3)	132.4
Transfer to investment in joint ventures	(0.7)	-	-	(0.7)
Provided during the year in the group income statement	1.3	-	-	1.3
Released during the year in the group income statement	(272.7)	(24.1)	8.1	(288.7)
Change in tax rates	(0.9)	-	0.2	(0.7)
At 31st December 2007	**13.1**	-	**(2.3)**	**10.8**
At 1st January 2006	91.6	13.6	-	105.2
Arising on acquisition of subsidiary	1.7	-	-	1.7
Adjustment to reserves in respect of deferred tax on share-based payments	-	-	(0.6)	(0.6)
Provided during the year in the group income statement	56.9	2.7	1.3	60.9
At 31st December 2006	150.2	16.3	0.7	167.2

Deferred tax on the revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment 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 conversion to REIT status on 1st July 2007, deferred tax is only provided at 31st December 2007 on properties outside of the REIT regime.

15. Equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Minority interest £m
At 1st January 2007	2.6	156.1	3.8	620.9	-
Issue of shares	2.4	-	-	-	-
Premium on issue of shares	-	0.9	910.5	-	-
Arising on acquisition of subsidiary	-	-	-	-	56.0
Share-based payments expense transferred to reserves	-	-	0.3	-	-
Actuarial gain on defined benefits pension scheme	-	-	-	1.3	-
Foreign exchange translation differences	-	-	(0.6)	-	-
Profit for the year	-	-	-	97.0	3.9
Dividends paid	-	-	-	(13.2)	-
At 31st December 2007	**5.0**	**157.0**	**914.0**	**706.0**	**59.9**
At 1st January 2006	2.6	155.1	2.3	446.2	-
Premium on issue of shares	-	1.0	-	-	-
Share-based payments expense transferred to reserves	-	-	0.9	-	-
Deferred tax in respect of share-based payments	-	-	0.6	-	-
Profit for the year	-	-	-	182.2	-
Dividends paid	-	-	-	(7.5)	-
At 31st December 2006	2.6	156.1	3.8	620.9	-

16. Dividend

	2007 £m	2006 £m
Second interim dividend of 10.525p (2006 final - 9.725p) per ordinary share declared during the year relating to the previous year's results	**5.7**	5.2
Interim dividend of 7.5p (2006 interim - 4.225p) per ordinary share declared during the year	**7.5**	2.3
	13.2	7.5

The directors are proposing the payment of a final dividend in respect of the current year's results of 15p (2006 second interim - 10.525p) per ordinary share which would total £15.1 million (2006 second interim - £5.6 million). This dividend has not been accrued at the balance sheet date.

17. Net asset value per share

	Net assets £m	Deferred tax on revaluation surplus £m	Fair value of derivative financial instruments £m	Fair value adjustment to secured bond £m	Adjusted net assets £m
At 31st December 2007	1,841.9	13.1	(1.2)	21.6	1,875.4
Minority interests	(59.9)	(1.7)	0.0	0.0	(61.6)
Attributable to equity shareholders	1,782.0	11.4	(1.2)	21.6	1,813.8
Net asset value per share (p)	1,829	13	(1)	21	1,862
Net asset value per share attributable to equity shareholders (p)	**1,770**	**11**	**(1)**	**21**	**1,801**

	Net assets £m	Deferred tax on revaluation surplus £m	Deferred tax on capital allowances £m	Fair value of derivative financial instruments £m	Adjusted net assets £m
At 31st December 2006 Net assets attributable to equity shareholders	783.4	150.2	16.3	(0.1)	949.8
Net asset value per share (p)	1,460	280	30	-	1,770
Net asset value per share attributable to equity shareholders (p)	1,460	280	30	-	1,770

The number of shares at 31st December 2007 was 100,703,194 (2006: 53,656,492)

The total net assets of the group and those attributable to equity shareholders are shown in the table above. Adjustments are made for the deferred tax on the revaluation surplus, the post tax fair value of derivative financial instruments and the secured bond, on the basis that these amounts are not relevant when considering the group as an ongoing business. Additionally, at 31st December 2006, adjusted net assets also excluded the deferred tax provided in respect of capital allowances claimed, on the basis that it was unlikely that this liability would ever crystallise.

18. Total return

	2007 %	2006 %
Total return	**2.8**	33.6

Total return is the movement in adjusted net asset value per share after minority interests plus the dividend per share paid during the year expressed as a percentage of the adjusted net asset value per share after minority interests at the beginning of the year.

19. Gearing

Balance sheet gearing at 31st December 2007 is 42.5% (2006 - 44.7%). This is defined as net debt divided by net assets.

Profit and loss gearing for 2007 is 1.81 (2006 - 1.85). This is defined as recurring net property income less administrative expenses divided by net interest payable having reversed the reallocation of ground rent payable on leasehold properties to interest payable of £0.6 million (2006 - £0.9 million). For 2007 and 2006, recurring net property income excludes development income.

20. Exceptional cash flows

The cash flow for the year to 31st December 2007 contained £16.0 million (2006 - £nil) which relate to costs incurred by London Merchant Securities plc prior to the acquisition and accrued at 31st January 2007 in the fair value balance sheet shown in note 11.

The year to 31st December 2007 also contained exceptional finance costs of £3.3 million (2006 - £17.6 million), as described in note 5.

21. Post balance sheet events

Since 31st December 2007 the group has completed the disposal of 11 properties for a total of £28.6 million, before costs, and exchanged contracts for the disposal of a further 4 properties for a total of £10.9 million, before costs. The estimated profit on these disposals is £0.1 million.

22. The financial information set out above does not constitute the company's statutory accounts for the years ended 31st December 2007 or 2006, but is derived from those accounts. Statutory accounts for 2006 have been delivered to the Registrar of Companies and those for 2007 will be delivered following the company's annual general meeting which will be held on 5th June 2008. The auditors have reported on those accounts; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and did not contain statements under the Companies Act 1985, s237(2) or (3). The annual report and accounts will be posted to shareholders on 22nd April 2008, and will also be available on the company's website, www.derwentlondon.com, from that date.

POST ACQUISITION PROFORMA BALANCE SHEET
As at 1st February 2007

	Derwent Group 31.12.06 £m	LMS Group 31.01.07 £m	Adjustments £m	Derwent London Group £m
Non-current assets				
Investment property	1,274.0	1,245.6	-	2,519.6
Property, plant and equipment	0.3	54.7	-	55.0
Investments	5.4	17.5	-	22.9
Pension scheme surplus	-	1.4	-	1.4
Deferred tax asset	-	12.0	-	12.0
Derivatives	0.1	6.1	-	6.2
Other receivables	13.7	6.2	-	19.9
	1,293.5	1,343.5	-	2,637.0
Current assets				
Trading property	-	9.4	-	9.4
Corporation tax asset	1.4	-	-	1.4
Trade and other receivables	39.4	8.8	(8.0)	40.2
Cash and cash equivalents	-	13.9	-	13.9
	40.8	32.1	(8.0)	64.9
Current liabilities				
Bank overdraft and loans	(2.2)	(4.6)	-	(6.8)
Trade and other payables	(32.5)	(40.9)	-	(73.4)
Provisions	(0.1)	-	-	(0.1)
	(34.8)	(45.5)	-	(80.3)
Non-current liabilities				
Borrowings	(347.6)	(510.6)	(44.7)	(902.9)
Deferred tax liability	(167.2)	(144.4)	-	(311.6)
Provisions	(1.3)	-	-	(1.3)
Other	-	(6.8)	-	(6.8)
	(516.1)	(661.8)	(44.7)	(1,222.6)
Total net assets	783.4	668.3	(52.7)	1,399.0
Equity				
Share capital	2.6	82.6	(80.2)	5.0
Share premium	156.1	22.2	(22.2)	156.1
Other reserves	3.8	11.1	899.4	914.3
Retained earnings	620.9	496.4	(849.7)	267.6
Attributable to equity holders	783.4	612.3	(52.7)	1,343.0
Minority interests	-	56.0	-	56.0
Total equity	783.4	668.3	(52.7)	1,399.0
Adjusted net asset value per share				1,717p
Adjusted net asset value per share attributable to equity shareholders – post minority interests				1,662p