ANNUAL RESULTS 2014 ANNOUNCEMENT
DERWENT LONDON PLC

DERWENT
LONDON

26 February 2015

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

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014
VERY STRONG PERFORMANCE THROUGHOUT 2014 AND A GOOD START TO 2015

Financial highlights

- EPRA net asset value per share increased by 28.4% to 2,908p from 2,264p at 31 December 2013, and by 13.1% from 2,572p at 30 June 2014
- Total return (including dividend) of 30.1% in 2014 compares to 21.9% in 2013
- Net rental income increased by 5.8% to £128.7m from £121.7m in 2013
- EPRA profit before tax was £62.3m, an increase of 7.8% from £57.8m in December 2013
- EPRA earnings per share were 57.08p, an increase of 6.0% from 53.87p in December 2013
- Final dividend per share of 28.00p making 39.65p for the full year, an increase of 8.6%

Operational performance

Strong property performance in 2014

- Secured £9.2m of new lettings
- Underlying estimated rental values increased by 9.0%, which compares to 5.7% in 2013
- Overall lettings 11.2%, and open market lettings 18.1%, above December 2013 ERV
- True equivalent yield tightened by 55 bps to 4.73%
- Underlying valuation uplift of 20.4%, which compares to 12.6% in 2013
- Underlying valuation uplift on our seven major projects was 24.2%

Effective capital recycling

- Principal property investment sales of £98.0m at a 40% premium to December 2013 values
- Principal property investment acquisitions totalling £90.9m, including Angel Square EC1
- Residential sales at Queens W2 produced gross proceeds of £15.7m
- Largest development programme to date is well underway with £122m spent in 2014

Balance sheet strength

- Extended £550m of bank facilities in December 2014 at a lower margin
- Loan-to-value ratio of 24.0% (31 December 2013 28.0%)
- Cash and undrawn committed facilities of £336m (£296m in December 2013)

Post year end activity

- Secured £5.9m of rent from new lettings in 2015 to date, with a further £2.1m under offer
- Acquired 20 Farringdon Road EC1 through a £115.3m property swap
- Completed Turnmill EC1 handing over 58,200 sq ft of offices to Publicis
- Started the 105,000 sq ft development at The Copyright Building W1
- Applied for planning permission to develop a 110,000 sq ft hotel and office scheme in SE1
- £175m 2.75% convertible bonds 2016 converted into new shares in January 2015

Robert Rayne, Chairman, commented:

"I am pleased to report another very strong year for Derwent London in 2014. Our long-term strategy of investing in innovative design-led projects in London's emerging villages appeals to occupiers and investors, as the definition of London's core office locations continues to evolve."

John Burns, Chief Executive Officer, commented:

"Derwent London is well positioned to benefit from the numerous creative opportunities within the portfolio. Overall we see scant evidence so far of a commercial property slowdown in London and we expect to see rental growth at least maintained at 6-8% across the portfolio, and investment yields to remain firm in 2015. We remain very confident in our business and our markets, and over the next few years look forward to delivering a substantial phased development programme to meet occupier demand."

Webcast and conference call

There will be a live webcast of the results together with a conference call for investors and analysts at 10.30 GMT today. The audio webcast can be accessed at www.derwentlondon.com.

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

Please say "Derwent London" when asked for the participant code.

A recording of the results presentation will also be made available later in the day on www.derwentlondon.com.

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Notes to editors

Derwent London plc

Derwent London plc owns a portfolio of commercial real estate predominantly in central London valued at £4.2 billion as at 31 December 2014, making it the largest London-focused real estate investment trust (REIT).

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

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

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

Landmark schemes in our portfolio of 5.7 million sq ft as at 31 December 2014 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 December 2014 Derwent London topped the real estate sector for the fifth year in a row and was placed ninth overall in the Management Today awards for 'Britain's Most Admired Companies'. Also in 2014 the Group won the Property Week 'Developer of the Year' and the RICS London Commercial Award, and was shortlisted for awards by Architects' Journal, BCO, NLA and OAS. The Group was also awarded EPRA Gold for corporate and sustainability reporting.

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

Chairman's statement

Overview

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

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

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

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

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

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

Financial results

Our property portfolio increased in value to £4.2bn. The total revaluation gain of £671.9m was the main component of our 28.4% growth in fully diluted EPRA NAV per share to 2,908p.
The growth in our annual profits reflects a buoyant letting programme and the major capital investment we have made over the last few years. Our reported net rents rose 5.8% to £128.7m resulting in an improvement to our interest cover ratio to a very comfortable 2.9 times. EPRA profit before tax increased 7.8% to £62.3m, and EPRA earnings per share improved by 6.0% to 57.08p.
Operationally and financially the Group is in a strong position and, as a result, we have raised the final dividend to 28.0p per share, an increase of 8.7%. The final dividend will be paid on 12 June 2015 to shareholders on the register on 8 May 2015. Of this, 22.35p will be paid as a PID under the UK REIT regime, and there will be a scrip alternative. The resultant dividend for the full year will be 39.65p per share, an increase of 8.6% over 2013.

The Board

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

Our people

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

Outlook

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

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

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

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

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

Robert A. Rayne

26 February 2015

BUSINESS REVIEW

OUR MARKET

See Appendix 1 for supporting graphs

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

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

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

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

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

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

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

- Strong take-up levels saw the central London vacancy rate fall from 4.7% to 3.7% in 2014. This is the lowest level since mid-2008, and 26% below the ten-year average. In the West End, where 60% of our portfolio is located, it is even lower at 2.7% down from 3.4% in the year. CBRE expects central London take-up to be lower this year, but availability will still fall.

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

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

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

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

VALUATION

See Appendix 2 for supporting graphs and table

Robust occupier demand, rising rentals and sustained investor appetite for central London commercial property, provided a strong background for the year end valuation. The Group's investment portfolio was valued at £4.168bn at 31 December 2014. The valuation surplus for the year was £683.8m, before accounting adjustments of £11.9m (see note 11), giving a total reported movement of £671.9m. This excellent performance was almost double the £337.5m increase in 2013, which was also a strong year.

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

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

The portfolio's EPRA net initial yield at 31 December 2014 was 3.4%, and this rises to 4.0% on a 'topped-up' basis, following the expiry of rent free periods and contracted rental uplifts. The true equivalent yield was 4.73%, a 55 basis points reduction over the year and follows a 27 basis points tightening in 2013.

Since December 2013 the portfolio's equivalent yield has been in new territory with the previous cycle low point being 5.35% in mid-2007. Current property yield levels are supported by a shortage of good office space in central London, firm rental growth and a positive economic outlook, all set around a historically low interest rate environment. On an EPRA basis our rental values rose 9.0% during the year and followed a five year steady trend. During 2014 the City Borders saw rental growth of 11.3% and the West End 8.4%.

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

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

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

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

PORTFOLIO MANAGEMENT

See Appendix 3 for supporting graphs and tables

Optimising income

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

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

Principal lettings in 2014

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min /fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
Middlesex House W1	Make	12,200	37.50[1]	0.5	42.50	15	10	9
Morelands EC1	Spark44	8,500	49.50	0.4	54.50	10	5	10.5, plus 4.5 if no break
1 Oliver`s Yard EC1	Orms	6,400	50.00	0.3	52.50	10	5	10.5, plus 4.5 if no break
Q2								
Tower House WC2	World Nuclear Association	5,700	66.00	0.4	68.50	10	-	13.5
Q3								
1-2 Stephen Street W1	Freud Communications	28,350	65.00	1.8	75.00	15	10	18, plus 6 if no break
Morelands EC1	Stink London	8,700	54.00	0.5	58.00	10	-	12
Middlesex House W1	London First	4,200	65.00	0.3	70.00	10	8	9
Q4								
1-2 Stephen Street W1	FremantleMedia	6,500	65.00	0.4	-	5	-	7

[1] Lower ground floor converted from former car park

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

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

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

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

Looking forward, we have secured a number of lettings on space where leases are due to expire in the first half of 2015. At 9 Prescot Street E1, where the Co-operative Bank's ("Co-op") £1.2m pa lease on the whole building was due to expire, we have granted the sub-tenant Barts Health NHS Trust a five-year lease on the five lower floors (60,000 sq ft) at a rent inclusive of the service charge of £1.5m pa. The Co-

op will now occupy the three upper floors (36,600 sq ft) on a lease that will break later in the year. This property is now held in our recently formed joint venture with LaSalle Investment Management.

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

PROJECTS

See Appendix 4 for supporting graphs and tables

Creating well designed space

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

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

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

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

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

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

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

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

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

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

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

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

Major projects pipeline

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

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

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

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

INVESTMENT ACTIVITY

Acquiring properties and unlocking their value

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

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

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

Principal acquisitions 2014

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

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

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

Recycling capital

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

Principal commercial disposals 2014

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

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

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

FINANCE REVIEW

See Appendix 5 for supporting graphs and tables

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

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

Levels of apparent liquidity chasing the London property sector have seemed the highest for many years with available cash now seeking debt as well as equity returns. We have taken advantage of these market

conditions by completing £100m of 15 and 20 year US private placement funding in January 2014 and extending our £550m revolving unsecured bank facility in December 2014 to a January 2020 maturity. The latter included a worthwhile reduction in the margin payable. As explained later, our 2016 convertible bonds also completed their conversion to new ordinary shares in January 2015 which further strengthens the balance sheet and improves interest cover.

See Appendix 5 for chart of portfolio value, net assets and gearing

Net asset value growth

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

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

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

See Appendix 5 for NAV 'bridge' chart

A detailed reconciliation of the EPRA NAV to the IFRS NAV is shown in note 22 to the financial statements.

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

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

Income statement

As in 2013, we have continued to see a useful improvement in recurring earnings despite higher levels of regeneration activity across our portfolio. EPRA profit before tax, which excludes £3.9m of trading profits on sales of our residential units at Queens, was up to £62.3m, an increase of 7.8% from the £57.8m comparative figure in 2013. EPRA earnings per share were also increased, rising to 57.08p from 53.87p a year earlier. The overall IFRS profit before tax, which includes fair value movements on property and interest rate swap values plus profits from our disposals, was £753.7m, by far the highest annual figure that the Group has yet seen. The revaluation surplus of £667.1m generated much of this 2014 IFRS profit. A table providing a reconciliation of the IFRS to EPRA profit before tax and earnings per share is included in note 22.

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

See Appendix 5 for gross property income chart

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

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

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

See Appendix 5 for EPRA profit before tax chart

We have again included the EPRA cost ratios this year, the main ratio having reduced to 24.2% from 25.1% in 2013; excluding direct vacancy costs, it rose slightly to 22.9% in 2014. The ratio of irrecoverable and administrative costs to the property portfolio fair value also fell in 2014, to 0.8% from 1.0% in 2013.

As in prior years, our income statement does not take account of any capitalisation of overheads, all of which are expensed in the year.

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

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

Taxation

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

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

Maintaining strong and flexible financing

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

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

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

These actions increased the weighted average length of our drawn debt to 6.6 years at the end of 2014, rising further to 7.9 years after conversion of the £175m convertible bonds 2016. They also increased the proportion of debt provided by non-banks to 66% from 60% at December 31, 2013. The long dated US

private placement notes increased our cost of debt slightly but, by the end of the year, the spot interest rate was only slightly higher than a year earlier at 3.78% on a cash basis against 3.64% in December 2013. The IFRS rate increased to 4.22% at 31 December 2014 from 4.10% a year earlier. It is worth noting that the proforma cash and IFRS interest rates, after conversion of the 2016 bonds, rise to 3.99% and 4.27%, respectively.

See Appendix 5 for table of debt facilities

Net debt and cash flow

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

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

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

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

See Appendix 5 for reconciliation of net debt, gearing and interest cover ratios, debt summary and maturity profiles of loan facilities and fixed and hedged debt

Dividend

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

Our financial outlook

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

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

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

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

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

The Directors 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 Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

On behalf of the board

John D. Burns	Damian M.A. Wisniewski
Chief Executive Officer	Finance Director
26 February 2015	

GROUP INCOME STATEMENT

	Note	**2014 £m**	2013 £m
Gross property and other income	5	**180.5**	160.5
Net property and other income	5	**136.1**	124.3
Administrative expenses		**(28.1)**	(26.4)
Movement in valuation of cash-settled share options		**(0.3)**	(0.3)
Total administrative expenses		**(28.4)**	(26.7)
Revaluation surplus	11	**667.1**	335.6
Profit on disposal of investment property	6	**28.2**	53.5
Profit on disposal of investment in joint venture	6	**2.0**	-
Profit from operations		**805.0**	486.7
Finance income	7	**-**	0.2
Finance costs		**(42.4)**	(41.4)
Loan arrangement costs written off		**-**	(3.2)
Total finance costs	7	**(42.4)**	(44.6)
Movement in fair value of derivative financial instruments		**(9.4)**	38.5
Financial derivative termination costs	8	**(2.0)**	(13.7)
Share of results of joint ventures	9	**2.5**	0.8
Profit before tax		**753.7**	467.9
Tax charge	10	**(3.9)**	(2.4)
Profit for the year		**749.8**	465.5
Attributable to:			
- Equity shareholders		**737.7**	456.6
- Non-controlling interest		**12.1**	8.9
		749.8	465.5
Earnings per share	22	**718.60p**	446.40p
Diluted earnings per share	22	**647.78p**	412.72p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2014 £m**	2013 £m
Profit for the year		**749.8**	465.5
Actuarial losses on defined benefit pension scheme		**(1.6)**	-
Revaluation surplus of owner-occupied property	11	**4.8**	1.9
Deferred tax on revaluation surplus	18	**(0.9)**	(0.1)
Other comprehensive income that will not be reclassified to profit or loss		**2.3**	1.8
Total comprehensive income relating to the year		**752.1**	467.3
Attributable to:			
- Equity shareholders		**740.0**	458.4
- Non-controlling interest		**12.1**	8.9
		752.1	467.3

GROUP BALANCE SHEET

	Note	**2014 £m**	2013 £m
Non-current assets			
Investment property	11	**4,041.0**	3,242.9
Property, plant and equipment	12	**27.2**	22.2
Investments		**7.4**	5.1
Pension scheme surplus		**-**	0.8
Other receivables	13	**78.9**	72.1
		4,154.5	3,343.1
Current assets			
Trading property	11	**24.0**	22.6
Trade and other receivables	14	**32.0**	53.5
Corporation tax asset		**0.2**	-
Cash and cash equivalents	20	**14.8**	12.5
		71.0	88.6
Non-current assets held for sale	15	**-**	4.8
Total assets		**4,225.5**	3,436.5
Current liabilities			
Borrowings	17	**170.5**	-
Trade and other payables	16	**89.8**	83.6
Corporation tax liability		**-**	1.4
Provisions		**0.8**	1.7
		261.1	86.7
Non-current liabilities			
Borrowings	17	**857.6**	961.7
Derivative financial instruments	17	**25.2**	15.9
Provisions		**0.7**	0.7
Pension scheme deficit		**0.2**	-
Deferred tax	18	**5.0**	1.0
		888.7	979.3
Total liabilities		**1,149.8**	1,066.0
Total net assets		**3,075.7**	2,370.5
Equity			
Share capital		**5.1**	5.0
Share premium		**174.0**	170.4
Other reserves		**952.5**	948.6
Retained earnings		**1,880.6**	1,180.0
Equity shareholders' funds		**3,012.2**	2,304.0
Non-controlling interest		**63.5**	66.5
Total equity		**3,075.7**	2,370.5

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 January 2014	5.0	170.4	948.6	1,180.0	2,304.0	66.5	2,370.5
Profit for the year	-	-	-	737.7	737.7	12.1	749.8
Other comprehensive income	-	-	3.9	(1.6)	2.3	-	2.3
Share-based payments	0.1	1.5	-	2.9	4.5	-	4.5
Dividends paid	-	-	-	(36.3)	(36.3)	(15.1)	(51.4)
Scrip dividends	-	2.1	-	(2.1)	-	-	-
At 31 December 2014	**5.1**	**174.0**	**952.5**	**1,880.6**	**3,012.2**	**63.5**	**3,075.7**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling 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

GROUP CASH FLOW STATEMENT

	Note	**2014 £m**	2013 £m
Operating activities			
Property income		**135.2**	123.3
Property expenses		**(8.1)**	(9.1)
Cash paid to and on behalf of employees		**(21.7)**	(19.0)
Other administrative expenses		**(5.3)**	(4.9)
Interest received		**-**	0.2
Interest paid	7	**(31.0)**	(32.3)
Other finance costs		**(3.0)**	(3.4)
Other income		**1.7**	2.8
Distributions received from joint ventures		**0.1**	1.2
Tax paid in respect of operating activities		**(2.3)**	(1.3)
Net cash from operating activities		**65.6**	57.5
Investing activities			
Acquisition of investment properties		**(92.4)**	(130.1)
Capital expenditure on the property portfolio	7	**(113.2)**	(108.4)
Disposal of investment and trading properties		**114.4**	149.7
Disposal of investment in joint venture		**4.9**	-
Repayment of loan by joint venture on disposal		**1.9**	-
Purchase of property, plant and equipment		**(0.3)**	(0.4)
Advances to non-controlling interest holder		**(2.0)**	(2.5)
REIT conversion charge		**-**	(0.6)
Net cash used in investing activities		**(86.7)**	(92.3)
Financing activities			
Net proceeds of bond issue		**-**	146.2
Repayment of revolving bank loan		**-**	(274.5)
Drawdown of new revolving bank loan		**-**	280.6
Net movement in revolving bank loan		**(38.9)**	-
Repayment of non-revolving bank loans		**-**	(65.0)
Drawdown of private placement notes		**99.0**	-
Financial derivative termination costs		**(2.0)**	(13.7)
Net proceeds of share issues		**1.5**	0.4
Dividends paid	19	**(36.2)**	(31.1)
Net cash from financing activities		**23.4**	42.9
Increase in cash and cash equivalents in the year		**2.3**	8.1
Cash and cash equivalents at the beginning of the year		**12.5**	4.4
Cash and cash equivalents at the end of the year	20	**14.8**	12.5

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2014 or the year ended 31 December 2013, but is derived from those accounts. The Group's statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2013 and 2014 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.

Going concern

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

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

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

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review. In addition, note 25 includes the Group's risks and risk management processes.

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

2. Changes in accounting policies

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

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

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

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

IFRS 9 Financial Instruments;
IFRS 10 (amended) – Consolidated Financial Statements;
IFRS 11 (amended) – Joint Arrangements;
IFRS 14 Regulatory Deferral Accounts;
IFRS 15 Revenue from Contracts with Customers;
IAS 16 (amended) – Property Plant and Equipment;
IAS 19 (amended) – Employee Benefits;
IAS 27 (amended) – Separate Financial Statements;
IAS 28 (amended) – Investments in Associates and Joint Ventures;
IAS 38 (amended) – Intangible Assets;
IAS 41 (amended) – Agriculture;
Annual Improvements to IFRSs (2010 - 2012 Cycle);
Annual Improvements to IFRSs (2011 - 2013 Cycle); and
Annual Improvements to IFRSs (2014).

3. Significant judgments, key assumptions and estimates

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

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

A full explanation of these policies and their application will be included in the 2014 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 22. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

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

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

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

Gross property income

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

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

Property portfolio

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

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

5. Property and other income

	2014 £m	2013 £m
Gross rental income	**136.7**	130.9
Surrender premiums received	**0.1**	1.6
Write-off of associated rents previously recognised in advance	**-**	(0.9)
	0.1	0.7
Other property income	**1.6**	-
Gross property income	**138.4**	131.6
Trading property sales proceeds	**15.7**	-
Service charge income	**24.4**	26.9
Other income	**2.0**	2.0
Gross property and other income	**180.5**	160.5
Gross rental income	**136.7**	130.9
Ground rent	**(0.4)**	(0.4)
Service charge income	**24.4**	26.9
Service charge expenses	**(25.6)**	(28.8)
	(1.2)	(1.9)
Other property costs	**(6.4)**	(6.9)
Net rental income	**128.7**	121.7
Trading property sales proceeds	**15.7**	-
Trading property cost of sales	**(11.8)**	-
Profit on trading property disposals	**3.9**	-
Other property income	**1.6**	-
Other income	**2.0**	2.0
Net surrender premiums received	**0.1**	0.7
Reverse surrender premiums	**(0.4)**	(0.2)
Dilapidation receipts	**0.2**	0.1
Net property and other income	**136.1**	124.3

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

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

6. Profit on disposal

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

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

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

7. Finance income and costs

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

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

As a result of the refinancing of the Group's bank facilities in September 2013, £3.2m of unamortised arrangement costs associated with the previous facilities repaid were written off to the Group income statement in 2013. In accordance with EPRA guidance, these costs have been excluded from EPRA profit and earnings (see note 22).

8. Financial derivative termination costs

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

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

9. Share of results of joint ventures

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

10. Tax charge

	2014 £m	2013 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**0.8**	0.8
Other adjustments in respect of prior years' tax	**-**	0.2
Corporation tax charge	**0.8**	1.0
Deferred tax		
Origination and reversal of temporary differences	**3.2**	1.3
Adjustment for changes in estimates	**(0.1)**	0.1
Deferred tax charge	**3.1**	1.4
Tax charge	**3.9**	2.4

In addition to the tax charge of £3.9m (2013: £2.4m) that passed through the Group income statement, a deferred tax charge of £0.9m (2013: £0.1m) was recognised in the Group statement of comprehensive income relating to revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2014 is lower (2013: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2014 £m	2013 £m
Profit before tax	**753.7**	467.9
Expected tax charge based on the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)*	**162.0**	108.8
Difference between tax and accounting profit on disposals	**(5.1)**	(15.0)
REIT exempt income	**(9.8)**	(11.0)
Revaluation surplus attributable to REIT properties	**(143.4)**	(78.0)
Expenses and fair value adjustments not allowable for tax purposes	**0.9**	(1.8)
Capital allowances	**(3.6)**	(3.9)
Origination and reversal of temporary differences	**3.2**	1.3
Other differences	**(0.3)**	1.8
Tax charge in respect of profit for the year	**3.9**	2.2
Adjustments in respect of prior years' tax	**-**	0.2
	3.9	2.4

*The expected tax rate for 2014 has been changed in line with the 2014 Finance Act.

11. 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 2014	2,773.2	469.7	3,242.9	19.7	-	22.6	3,285.2
Acquisitions	92.2	-	92.2	-	-	-	92.2
Capital expenditure	80.0	24.1	104.1	0.3	-	12.3	116.7
Interest capitalisation	3.6	1.3	4.9	-	-	0.4	5.3
Additions	175.8	25.4	201.2	0.3	-	12.7	214.2
Disposals	(70.1)	(0.2)	(70.3)	-	-	(11.3)	(81.6)
Revaluation	585.4	81.7	667.1	4.8	-	-	671.9
Movement in grossing up of headlease liabilities	-	0.1	0.1	-	-	-	0.1
At 31 December 2014	**3,464.3**	**576.7**	**4,041.0**	**24.8**	**-**	**24.0**	**4,089.8**
At 1 January 2013	2,296.6	476.0	2,772.6	17.9	16.5	-	2,807.0
Acquisitions	129.8	(0.5)	129.3	-	-	-	129.3
Capital expenditure	81.0	18.0	99.0	-	-	4.0	103.0
Interest capitalisation	3.8	0.9	4.7	-	-	0.1	4.8
Additions	214.6	18.4	233.0	-	-	4.1	237.1
Disposals	(0.6)	(79.3)	(79.9)	-	(16.5)	-	(96.4)
Depreciation	-	-	-	(0.1)	-	-	(0.1)
Transfers	(18.5)	-	(18.5)	-	-	18.5	-
Revaluation	281.1	54.5	335.6	1.9	-	-	337.5
Movement in grossing up of headlease liabilities	-	0.1	0.1	-	-	-	0.1
At 31 December 2013	2,773.2	469.7	3,242.9	19.7	-	22.6	3,285.2

Adjustments from fair value to carrying value

	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 2014							
Fair value	**3,541.6**	**572.6**	**4,114.2**	**24.8**	**-**	**29.1**	**4,168.1**
Revaluation of trading property	-	-	-	-	-	(5.1)	(5.1)
Lease incentives and costs included in receivables	(77.3)	(4.2)	(81.5)	-	-	-	(81.5)
Grossing up of headlease liabilities	-	8.3	8.3	-	-	-	8.3
Carrying value	**3,464.3**	**576.7**	**4,041.0**	**24.8**	**-**	**24.0**	**4,089.8**
At 31 December 2013							
Fair value	2,843.1	465.6	3,308.7	19.7	-	24.7	3,353.1
Revaluation of trading property	-	-	-	-	-	(2.1)	(2.1)
Lease incentives and costs included in receivables	(69.9)	(4.1)	(74.0)	-	-	-	(74.0)
Grossing up of headlease liabilities	-	8.2	8.2	-	-	-	8.2
Carrying value	2,773.2	469.7	3,242.9	19.7	-	22.6	3,285.2

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2014 by external valuers on the basis of fair value in accordance with the RICS Valuation – Professional Standards January 2014, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £4,135.2m (2013: £3,322.8m) and other valuers at £32.9m (2013: £30.3m). Of the properties revalued by CBRE, £24.8m (2013: £19.7m) relating to owner-occupied property was included within property, plant and equipment and £29.1m (2013: £24.7m) was in relation to trading property.

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

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

Reconciliation of revaluation surplus

	2014 £m	2013 £m
Total revaluation surplus	**683.8**	352.5
Lease incentives and costs	**(8.0)**	(13.0)
Trading property revaluation surplus	**(3.9)**	(2.1)
Owner-occupied property depreciation	**-**	0.1
IFRS revaluation surplus	**671.9**	337.5
Reported in the:		
Group income statement	**667.1**	335.6
Group statement of comprehensive income	**4.8**	1.9
	671.9	337.5

Historic cost

	2014 £m	2013 £m
Investment property	**2,534.4**	2,385.3
Owner-occupied property	**7.6**	7.3
Trading property	**23.4**	22.0
Total property portfolio	**2,565.4**	2,414.6

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2014	19.7	1.5	1.0	22.2
Additions	0.3	-	0.2	0.5
Depreciation	-	-	(0.3)	(0.3)
Revaluation	4.8	-	-	4.8
At 31 December 2014	**24.8**	**1.5**	**0.9**	**27.2**
At 1 January 2013	17.9	1.5	0.9	20.3
Additions	-	-	0.5	0.5
Disposals	-	-	(0.1)	(0.1)
Depreciation	(0.1)	-	(0.3)	(0.4)
Revaluation	1.9	-	-	1.9
At 31 December 2013	19.7	1.5	1.0	22.2
Net book value				
Cost or valuation	24.8	1.5	2.6	28.9
Accumulated depreciation	-	-	(1.7)	(1.7)
At 31 December 2014	**24.8**	**1.5**	**0.9**	**27.2**
Net book value				
Cost or valuation	19.7	1.5	2.5	23.7
Accumulated depreciation	-	-	(1.5)	(1.5)
At 31 December 2013	19.7	1.5	1.0	22.2

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in December 2014. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 31 December 2014 was £1.5m (2013: £1.5m). See note 11 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

13. Other receivables (non-current)

	2014 £m	2013 £m
Accrued income	**73.2**	66.4
Other	**5.7**	5.7
	78.9	72.1

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £8.3m (2013: £7.6m), which was included as current assets within trade and other receivables, these amounts totalled £81.5m at 31 December 2014 (2013: £74.0m).

14. Trade and other receivables

	2014	2013
	£m	£m
Trade receivables	**4.5**	11.2
Other receivables	**2.4**	15.4
Prepayments	**15.7**	15.2
Sales and social security taxes	**-**	3.3
Accrued income	**9.4**	8.4
	32.0	53.5

15. Non-current assets held for sale

	2014	2013
	£m	£m
Investments	**-**	4.8
	-	4.8

In February 2014, the Group conditionally exchanged contracts to sell its 25% interest in the Euro Mall Sterboholy a.s. joint venture in Prague for £5.4m before costs. In addition, as part of the transaction, a further £1.9m was received as repayment of a shareholder loan.

As a result, this investment was recognised as non-current assets held for sale at 31 December 2013, in accordance with IFRS 5 Non-current Assets Held for Sale.

16. Trade and other payables

	2014	2013
	£m	£m
Trade payables	**2.2**	8.9
Other payables	**12.8**	10.5
Sales and social security taxes	**4.2**	-
Accruals	**37.4**	28.1
Deferred income	**33.2**	36.1
	89.8	83.6

17. Borrowings and derivative financial instruments

	2014		2013	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Current liabilities				
2.75% unsecured convertible bonds 2016	**170.5**	**234.4**	-	-
	170.5	**234.4**	-	-
Non-current liabilities				
2.75% unsecured convertible bonds 2016	**-**	**-**	167.7	204.5
1.125% unsecured convertible bonds 2019	**137.5**	**154.5**	135.0	138.1
6.5% secured bonds 2026	**189.8**	**227.4**	190.6	199.0
4.41% unsecured private placement notes 2029	**24.7**	**27.6**	-	-
4.68% unsecured private placement notes 2034	**74.2**	**83.5**	-	-
3.99% secured loan 2024	**81.9**	**84.1**	81.8	74.3
Unsecured bank loan	**243.7**	**249.0**	281.1	287.0
Secured bank loans	**97.5**	**98.0**	97.3	98.0
Leasehold liabilities	**8.3**	**8.3**	8.2	8.2
	857.6	**932.4**	961.7	1,009.1
Borrowings	**1,028.1**	**1,166.8**	961.7	1,009.1
Derivative financial instruments expiring in greater than one year	**25.2**	**25.2**	15.9	15.9
Borrowings and derivative financial instruments	**1,053.3**	**1,192.0**	977.6	1,025.0

Reconciliation to net debt:	**2014**	2013
Borrowings and derivative financial instruments	**1,053.3**	977.6
Less:		
Derivative financial instruments	**(25.2)**	(15.9)
Cash and cash equivalents	**(14.8)**	(12.5)
Net debt	**1,013.3**	949.2

In December 2014, the Group issued a notice for the early redemption of the 2.75% unsecured convertible bonds 2016 prior to 30 January 2015. All the bonds converted after the year end into new ordinary shares of 5p each and were subsequently cancelled. The bonds have therefore been included in current liabilities at 31 December 2014. See note 21 for further details.

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

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

The fair 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, other receivables and accrued income included within trade and other receivables;
- Trade payables, other payables and accruals included within trade and other payables; and
- Leasehold liabilities.

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2014 or 2013.

18. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2014	5.5	(4.5)	1.0
Charged to the income statement	1.0	2.2	3.2
Change in tax rates in the income statement	(0.2)	0.1	(0.1)
Charged to other comprehensive income	0.9	-	0.9
At 31 December 2014	**7.2**	**(2.2)**	**5.0**
At 1 January 2013	4.1	(4.6)	(0.5)
Charged/(credited) to the income statement	1.6	(0.3)	1.3
Change in tax rates in the income statement	(0.3)	0.4	0.1
Charged to other comprehensive income	0.2	-	0.2
Change in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 31 December 2013	5.5	(4.5)	1.0

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

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

19. Dividends

	Payment date	Dividend per share PID p	Non-PID p	Total p	**2014 £m**	2013 £m
Current year						
2014 final dividend	12 June 2015	22.35	5.65	28.00	**-**	-
2014 interim dividend	23 October 2014	7.30	4.35	11.65	**12.0**	-
Distribution of current year profit		29.65	10.00	39.65		
Prior year						
2013 final dividend	13 June 2014	23.50	2.25	25.75	**26.4**	-
2013 interim dividend	24 October 2013	6.00	4.75	10.75	**-**	10.9
Distribution of prior year profit		29.50	7.00	36.50		
2012 final dividend	14 June 2013	18.75	5.00	23.75	**-**	24.3
Dividends as reported in the Group statement of changes in equity					**38.4**	35.2
2014 interim dividend withholding tax	14 January 2015				**(1.0)**	-
2014 interim scrip dividend	23 October 2014				**(1.0)**	-
2013 final scrip dividend	13 June 2014				**(1.1)**	-
2013 interim dividend withholding tax	14 January 2014				**0.9**	(0.9)
2013 interim scrip dividend	24 October 2013				**-**	(1.2)
2012 final scrip dividend	14 June 2013				**-**	(3.5)
2012 interim dividend withholding tax	14 January 2013				**-**	1.5
Dividends paid as reported in the Group cash flow statement					**36.2**	31.1

20. Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank	**14.8**	12.5

21. Post balance sheet events

In February 2015, the Group unconditionally exchanged a contract to acquire a minimum 175-year long leasehold of 20 Farringdon Road EC1. In return the Group has disposed of two properties, 22 Kingsway WC2 for £64.5m and Mark Square House EC2 for £32.1m, plus a 50% interest in a newly formed joint venture at 9 and 16 Prescot Street E1. The price of the acquisition was £88.0m before costs and the combined disposal proceeds were £115.3m. The properties disposed of by the Group have not been included in non-current assets held for sale as management was not committed to a plan to sell them at 31 December 2014.

Further to the announcement made in December 2014 for early redemption of the 2.75% unsecured convertible bonds 2016, the Group received notices from 100% of the bondholders in January 2015 confirming that they would be taking up their options to convert in full. This subsequently led to the cancellation of the bonds and the issue of 7,875,776 new 5p ordinary shares.

22. EPRA performance measures

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2014 '000	2013 '000	**2014 '000**	2013 '000
For use in basic measures	**102,658**	102,284	**102,785**	102,478
Dilutive effect of convertible bonds	**12,373**	9,848	**7,876**	7,876
Dilutive effect of share-based payments	**456**	486	**477**	500
For use in measures for which bond conversion is dilutive	**115,487**	112,618	**111,138**	110,854
Less dilutive effect of convertible bonds	**(12,373)**	(9,848)	**(7,876)**	(7,876)
For use in other diluted measures	**103,114**	102,770	**103,262**	102,978

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

For 2014 and 2013, the shares attributable to the conversion of the 2016 bonds were dilutive for net asset value (NAV) and EPRA NAV per share and unadjusted earnings per share but anti-dilutive for EPRA earnings per share.

For 2014 and 2013, the shares attributable to the conversion of the 2019 bonds were dilutive for unadjusted earnings per share but anti-dilutive for EPRA earnings per share and all NAV per share measures.

For consistency purposes, the Group has adopted the same approach for dilution due to convertible bonds for the calculation of EPRA triple NAV per share as EPRA NAV per share.

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

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

Profit before tax and earnings per share

	IFRS	Adjustments A	B	C	D	EPRA
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2014						
Net property and other income	136.1	(3.9)	-	-	-	132.2
Total administrative expenses	(28.4)	-	-	-	0.3	(28.1)
Revaluation surplus	667.1	-	(667.1)	-	-	-
Profit on disposal of investment property	28.2	(28.2)	-	-	-	-
Profit on disposal of investment	2.0	(2.0)	-	-	-	-
Net finance costs	(42.4)	-	-	-	-	(42.4)
Movement in fair value of derivative financial instruments	(9.4)	-	-	9.4	-	-
Financial derivative termination costs	(2.0)	-	-	2.0	-	-
Share of results of joint ventures	2.5	-	(1.9)	-	-	0.6
Profit before tax	**753.7**	**(34.1)**	**(669.0)**	**11.4**	**0.3**	**62.3**
Tax charge	(3.9)	1.0	1.2	-	-	(1.7)
Profit for the year	749.8	(33.1)	(667.8)	11.4	0.3	60.6
Non-controlling interest	(12.1)	-	10.4	(0.3)	-	(2.0)
Profit for the year attributable to equity shareholders	737.7	(33.1)	(657.4)	11.1	0.3	58.6
Interest effect of dilutive convertible bonds	10.4	-	-	-	(10.4)	-
Diluted earnings	748.1	(33.1)	(657.4)	11.1	(10.1)	58.6
Earnings per share	**718.60p**					**57.08p**
Diluted earnings per share	647.78p					56.83p

	IFRS	Adjustments A	B	C	D	EPRA
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2013						
Net property and other income	124.3	-	-	-	-	124.3
Total administrative expenses	(26.7)	-	-	-	0.3	(26.4)
Revaluation surplus	335.6	-	(335.6)	-	-	-
Profit on disposal of investment property	53.5	(53.5)	-	-	-	-
Net finance costs	(44.4)	-	-	-	3.2	(41.2)
Movement in fair value of derivative financial instruments	38.5	-	-	(38.5)	-	-
Financial derivative termination costs	(13.7)	-	-	13.7	-	-
Share of results of joint ventures	0.8	-	0.3	-	-	1.1
Profit before tax	467.9	(53.5)	(335.3)	(24.8)	3.5	57.8
Tax charge	(2.4)	-	1.3	-	-	(1.1)
Profit for the year	465.5	(53.5)	(334.0)	(24.8)	3.5	56.7
Non-controlling interest	(8.9)	0.1	6.2	1.0	-	(1.6)
Profit for the year attributable to equity shareholders	456.6	(53.4)	(327.8)	(23.8)	3.5	55.1
Interest effect of dilutive convertible bonds	8.2	-	-	-	(8.2)	-
Diluted earnings	464.8	(53.4)	(327.8)	(23.8)	(4.7)	55.1
Earnings per share	446.40p					53.87p
Diluted earnings per share	412.72p					53.61p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2014			
Net assets attributable to equity shareholders - diluted	3,182.7		2,864
Remove conversion of 2.75% unsecured convertible bonds 2016	(170.5)		
Net assets attributable to equity shareholders - undiluted	3,012.2	2,931	
Adjustment for:			
Revaluation of trading properties net of tax	4.1		
Deferred tax on revaluation surplus	7.2		
Fair value of derivative financial instruments	25.2		
Fair value adjustment to secured bonds	16.0		
Non-controlling interest in respect of the above	(3.2)		
EPRA net asset value - undiluted	3,061.5	2,979	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	170.5		
EPRA net asset value - diluted	**3,232.0**		**2,908**
Adjustment for:			
Deferred tax on revaluation surplus	(7.2)		
Fair value of derivative financial instruments	(25.2)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(14.2)		
Mark-to-market of secured bonds	(52.4)		
Mark-to-market of fixed rate secured loan	(1.1)		
Mark-to-market of fixed rate unsecured private placement notes	(11.1)		
Unamortised issue and arrangement costs	(11.9)		
Non-controlling interest in respect of the above	3.2		
EPRA triple net asset value - diluted	**3,112.1**		**2,800**
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(170.5)		
Unamortised issue and arrangement costs	(1.4)		
Mark-to-market of bonds	(62.5)		
EPRA triple net asset value - undiluted	2,877.7	2,800	

At 31 December 2013			
Net assets attributable to equity shareholders - diluted	2,471.7		2,230
Remove conversion of 2.75% unsecured convertible bonds 2016	(167.7)		
Net assets attributable to equity shareholders - undiluted	2,304.0	2,248	
Adjustment for:			
Revaluation of trading properties net of tax	2.1		
Deferred tax on revaluation surplus	5.5		
Fair value of derivative financial instruments	15.9		
Fair value adjustment to secured bonds	16.9		
Non-controlling interest in respect of the above	(2.2)		
EPRA net asset value - undiluted	2,342.2	2,286	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	167.7		
EPRA net asset value - diluted	2,509.9		2,264
Adjustment for:			
Deferred tax on revaluation surplus	(5.5)		
Fair value of derivative financial instruments	(15.9)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	0.1		
Mark-to-market of secured bonds	(24.0)		
Mark-to-market of fixed rate secured loan	8.7		
Unamortised issue and arrangement costs	(12.3)		
Non-controlling interest in respect of the above	2.2		
EPRA triple net asset value - diluted	2,463.2		2,222
Adjustment for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(167.7)		
Unamortised issue and arrangement costs	(2.3)		
Mark-to-market of bonds	(34.5)		
EPRA triple net asset value - undiluted	2,258.7	2,204	

Cost ratios

	2014 £m	2013 £m
Administrative expenses	**28.1**	26.4
Other property costs	**6.4**	6.9
Dilapidation receipts	**(0.2)**	(0.1)
Net service charge costs	**1.2**	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.5)**	(0.3)
Management fees received less estimated profit element	**(2.0)**	(2.0)
Share of joint ventures' expenses	**0.1**	0.4
EPRA costs (including direct vacancy costs) (A)	**33.1**	33.2
Direct vacancy costs	**(1.8)**	(3.4)
EPRA costs (excluding direct vacancy costs) (B)	**31.3**	29.8
Gross rental income	**136.7**	130.9
Ground rent	**(0.4)**	(0.4)
Service charge components of rental income	**(0.5)**	(0.3)
Share of joint ventures' rental income less ground rent	**0.8**	1.9
Adjusted gross rental income (C)	**136.6**	132.1
EPRA cost ratio (including direct vacancy costs) (A/C)	**24.2%**	25.1%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**22.9%**	22.6%

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

	2014 £m	2013 £m
Property portfolio at fair value (D)	**4,168.1**	3,353.1
Portfolio cost ratio (A/D)	**0.8%**	1.0%

The Group has not capitalised any overhead or operating expenses in either 2014 or 2013.

23. Gearing and interest cover

NAV gearing

	2014 £m	2013 £m
Net debt	**1,013.3**	949.2
Net assets	**3,075.7**	2,370.5
NAV gearing	**32.9%**	40.0%

Loan-to-value ratio

	2014 £m	2013 £m
Net debt	**1,013.3**	949.2
Fair value adjustment of secured bonds	**(16.0)**	(16.9)
Unamortised issue and arrangement costs	**13.3**	14.6
Leasehold liabilities	**(8.3)**	(8.2)
Drawn debt net of cash	**1,002.3**	938.7
Fair value of property portfolio	**4,168.1**	3,353.1
Loan-to-value ratio	**24.0%**	28.0%

Net interest cover ratio

	2014 £m	2013 £m
Net property and other income	**136.1**	124.3
Adjustments for:		
Other income	**(2.0)**	(2.0)
Other property income	**(1.6)**	-
Net surrender premiums received	**(0.1)**	(0.7)
Profit on disposal of trading properties	**(3.9)**	-
Reverse surrender premiums	**0.4**	0.2
Adjusted net property income	**128.9**	121.8
Finance income	**-**	(0.2)
Finance costs	**42.4**	41.4
	42.4	41.2
Adjustments for:		
Finance income	**-**	0.2
Other finance costs	**(0.2)**	(0.3)
Amortisation of fair value adjustment to secured bonds	**0.9**	0.9
Amortisation of issue and arrangement costs	**(3.3)**	(3.2)
Finance costs capitalised	**5.3**	4.8
	45.1	43.6
Net interest cover ratio	**286%**	279%

24. Total return

	2014 p	2013 p
EPRA net asset value on a diluted basis		
At end of year	**2,908.00**	2,264.00
At start of year	**(2,264.00)**	(1,886.00)
Increase	**644.00**	378.00
Dividend per share	**37.40**	34.50
Increase including dividend	**681.40**	412.50
Total return	**30.1%**	21.9%

25. Risk management and internal control

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

Overall responsibility for risk management rests with the Board which has delegated responsibility for assurance concerning the process to the Audit Committee and the Risk Committee. Executive management is responsible for designing, implementing, maintaining and evaluating the necessary systems of internal control.

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

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

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

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

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

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

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

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. • **Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. The Group continues to benefit from a strong central London market. However, this could be adversely affected by a number of high level economic factors which would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – Total Return and Total Property Return. The Board sees the level of these risks as slightly higher than last year.	• The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios of changes to the main underlying assumptions reflecting different economic scenarios. • The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility is largely due to the Group's policy of maintaining income from properties for as long as possible until development starts. • The level of future redevelopment opportunities identified in the Group's portfolio enables the Board to delay marginal projects until market conditions are favourable. • The Board pays particular attention, when setting its plans, to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	• The last annual strategic review was carried out by the Board in June 2014. This considered the sensitivity of six key measures to changes in underlying assumptions including interest rates and borrowing margins, timing of projects, level of capital expenditure and the extent of capital recycling. • The three rolling forecasts prepared during the year focus on the same key measures but may consider the effect of varying different assumptions to reflect changing economic and market conditions. • The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. • Over 50% of the Group's portfolio has been identified for future redevelopment. • During the year the Group's loan-to-value ratio remained below 28%, its net interest cover ratio was above 275% and the REIT ratios were comfortably met.
• **Shortage of future developments** A lack of suitable development opportunities leads to the Group paying a price that results in lower future returns. This would affect the Group's Total Return and Total Property Return KPIs.	• The development opportunities within the Group's portfolio enable the Board to defer acquisitions until more properties become available at an appropriate price level.	• Over 50% of the Group's portfolio has been identified for future redevelopment. • The Group made principal acquisitions of £90.9m which enhance its holdings

The level of risk has increased from last year.	• The scale of the central London property market means that suitable properties should always be available.	in two “villages”. It has also acquired a major new property through a property ‘swap’, in 2015.
• **Regulatory non-compliance**		
The Group’s cost base is increased and management time diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. An increase in costs would directly impact on the Group’s Total Return KPI. A significant diversion of management time could affect a wider range of key metrics. This risk has increased marginally due to the increased scale of the Group’s development activity and the associated increase in Health and Safety risks.	• The Group’s Risk Committee reports to the Board concerning regulatory risk. • The Group employs a Health and Safety Manager who reports to the Board. • The Group employs a Sustainability Manager who reports to the sustainability committee which is chaired by Paul Williams. • The Company’s policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. • Members of staff attend external briefings in order to remain cognisant of regulatory changes.	• A Health and Safety report is presented at all Executive Committee and main Board meetings. • The Executive Committee receives regular reports from the Sustainability Manager. • The Group pays considerable attention to sustainability issues and produces an annual sustainability report. • The Group has reviewed and revised its whistleblowing policy during the year
• **Reputational damage**		
The Group’s reputation is damaged through unauthorised and inaccurate media coverage. This risk would most directly impact on the Group’s Total Shareholder Return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to be broadly the same as last year.	• All new members of staff benefit from an induction programme and are issued with the Group’s Staff Handbook. • Social media channels are monitored by the Group’s investor relations department. • The Group takes advice on technological changes in the use of media and adapts its approach accordingly. • There is an agreed procedure for approving all external statements.	• The Group employs a Head of Investor and Corporate Communications and retains the services of an external PR agency. Both maintain regular contact with external media sources. • The Company engages with a number of local community bodies in areas where it operates as part of its CSR activity.

Financial risks

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

Risk, effect and progression	Controls and mitigation	Action
• **Increase in property yields**		
Increases in interest rates can lead to higher property yields which would cause property values to fall. This would affect the following KPI's: ○ Loan-to-Value Ratio. ○ Total Return. ○ Total Property Return. Interest rates have remained low for an extended period of time and yields have decreased during the year. Interest rates are expected to rise within the next two years. Though there is no direct relationship, this may cause property yields to increase in due course and therefore the Board considers this risk to have increased during the year due to further recent reductions in yields.	• The impact of 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. • The management of the Group's financial covenants has been simplified by changes to its financing profile over the last two years. • The impact of yield changes is considered when potential projects are appraised.	• The Group produces three rolling forecasts each year which contain detailed sensitivity analyses. • Quarterly management accounts report on the Group's performance against covenants. • Project appraisals are regularly reviewed and updated.

Operational risks

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

Risk, effect and progression	Controls and mitigation	Action
• **Reduced development returns**		
The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: ○ delays in the planning process ○ delays due to contractors/ sub-contractors defaulting ○ increased construction costs ○ adverse letting conditions.	• Standardised appraisals which include contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • The scale of the Group's development programme is managed to reflect anticipated market	• The Group is advised by leading planning consultants and has considerable in-house planning expertise. • Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. • The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is

This would have an effect on the Group's Total Return and Total Property Return KPIs.

The Board considers this risk to have remained broadly the same over the last year.

conditions.

- Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget and timetable. This allows potential adverse variances to be identified and addressed at an early stage.
- The Group uses contractors/ sub-contractors that it has previously worked with successfully whenever possible.
- Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures can be identified and implemented.
- Alternative procurement methods are evaluated as a way of minimising the impact of increased construction costs.

designed to minimise uncertainty regarding costs.

- Development costs are benchmarked to ensure that the Group obtains competitive pricing.
- The Group's style of accommodation remains in demand as evidenced by the 60 lettings achieved in 2014 which totalled 188,319 sq ft.
- The Group has often secured significant pre-lets of the space in its development programme which significantly "de-risks" those projects.
- The Group's cost committee meets on a weekly basis to consider new budget requests or amendments.

- **Inefficient systems**

The Group's systems and in particular its IT infrastructure are not developed quickly enough to support the business as it changes and grows or new systems are not implemented effectively.

This would lead to increased costs or reduced returns which would affect the Group's Total Return KPI.

Due to the expansion of the Group and increases in the rate of change in IT, this risk is considered to have risen over the year.

- The Group's IT department has been expanded over the last two years to improve the Group's ability to develop its systems.
- A steering group has been established from all parts of the business to identify and prioritise requirements.
- The proximity of members of the Executive Committee to the day-to-day operations helps identify IT requirements.
- System improvements are considered as part of the five year strategic review.

- The IT department consists of three people.
- The IT steering group met 5 times during the year.
- The IT manager attends meetings with representatives from similar companies in order to share knowledge.
- External consultants are used to assist with the implementation of most new systems.

- **Business interruption**

The Group suffers either a successful cyber-attack or disaster that results in it being unable to use its IT systems. This would lead to an increase in cost and a diversion of management time. Increased costs would have an impact on the Group's Total Return KPI whilst a significant diversion of management time would have a wider effect. Due to the Group's increased dependence on IT systems, this risk is seen to have increased over the year.	• The Group's IT systems are protected by anti-virus software and firewalls which are continually updated. • The offsite back-up IT infrastructure has been tested. • A "disaster recovery" suite has been established.	• Internal and external penetration tests are regularly conducted to assess the effectiveness of the firewalls. • A staff awareness programme has been rolled out to alert staff to the techniques that may be used to gain unauthorised access to the Group's systems. • The Group's Business Continuity Plan is being reviewed and updated by external consultants.

- **Tenant default**

The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. This risk would have an immediate effect on the Group's Tenant Receipts and Void Management KPIs and, if significant, on the Total Property Return, Total Return and Interest Cover Ratio. The Board considers this risk to have marginally decreased over the last year.	• All prospective tenants are considered by the Group's Credit Committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. • The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. • The Group's Credit Committee regularly reviews a list of slow payers and considers what actions should be taken. • The Board regularly considers the merits of tenant default insurance.	• The Group has a diversified tenant base. • The Credit Committee meets each week and considered 113 potential lettings during the year. • In total the Group holds rental deposits amounting to £10.6m. • On average, the Group has collected 99% of the rents due within 14 days of the due date.

- **Shortage of key staff**

The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	• The remuneration packages of all employees are bench-marked regularly. • Six-monthly appraisals	• The Group recruited 11 new members of staff during 2014. • Staff turnover during 2014 was low at 8%.

This risk could impact on any or all of the Group's KPIs. The risk is seen to have marginally increased over the year.	identify training requirements which are fulfilled over the next six months. • The Nominations Committee consider succession matters as a standing agenda item. • Requirements for senior management succession are considered as part of the five year strategic review.	

Financial instruments – risk management

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

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

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

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

Principal financial instruments

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

General objectives, policies and processes

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

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

Credit risk

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

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

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

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

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

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.3m (2013: £0.8m) or a decrease of £0.3m (2013: £0.8m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2014, the proportion of fixed debt held by the Group was above this range at 94%. During both 2014 and 2013, the Group's borrowings at variable rate were denominated in sterling.

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

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

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

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

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

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined at the end of this announcement and are derived in note 23.

26. List of definitions

Average topped up rent
Annualised rents generated by the portfolio plus rent contracted from expiry of rent-free periods and uplifts agreed at the balance sheet date.

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

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

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

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

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

- **EPRA earnings per share**

Recurring earnings from core operational activities.

- **EPRA net asset value per share**

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

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

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

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

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

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

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

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

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

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

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

- **EPRA vacancy rate**

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

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

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

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

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

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

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

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

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

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

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

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

NAV gearing
Net debt divided by net assets.

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

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

Net interest cover ratio
Net property income, excluding other income, net surrender premiums receivable and reverse surrender premiums payable divided by interest payable on borrowings and non-utilisation fees.

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

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

Real Estate Investment Trust (REIT)
The Government established REIT status in the UK in 2007 to remove tax inequalities between different real estate investors and aimed to improve overall investor access to real estate. REITs are companies which are exempt from corporate taxation on profits from property rental income and capital gains on the sale of investment properties.

REITs must distribute 90% of profits from its rental income business 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 ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

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

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

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields

- **Net initial yield**

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

- **Reversionary yield**

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

- **True equivalent yield**

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

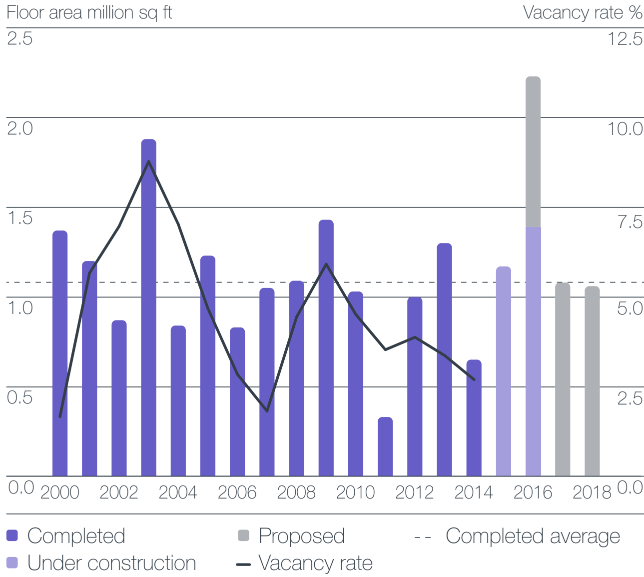
- **Yield shift**

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

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

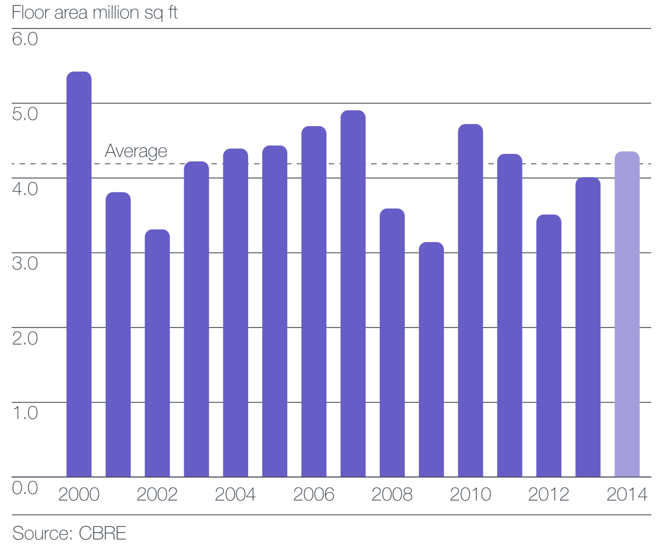
APPENDIX 1
OUR MARKET

West End office development pipeline



Source: CBRE

West End office take-up



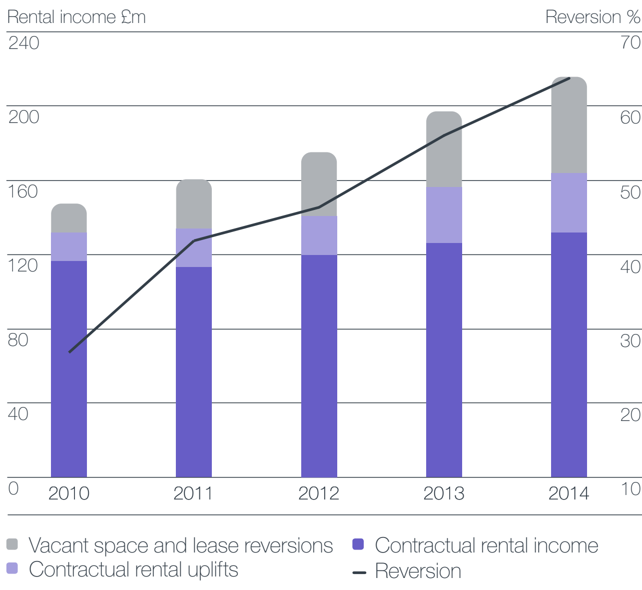
Source: CBRE

Central London office investment transactions £bn

Source: CBRE

APPENDIX 2
VALUATION

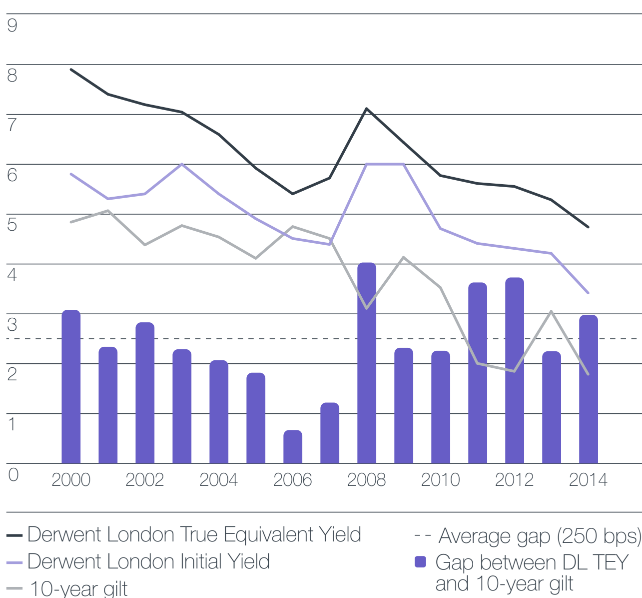
Portfolio reversion



Valuation performance %

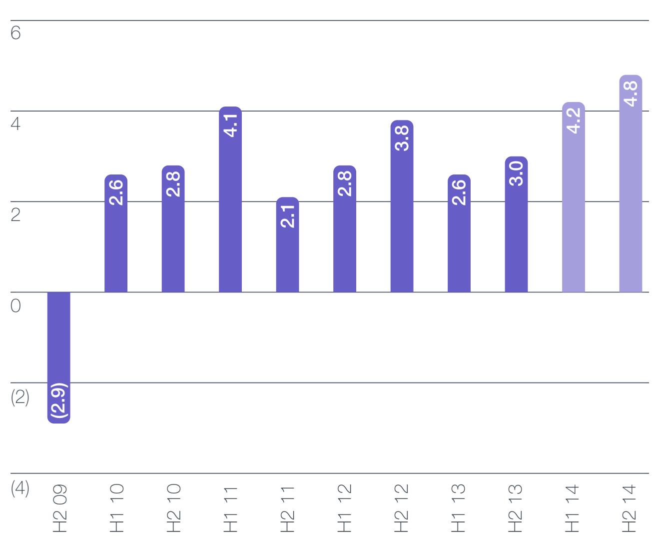
[1] Quarterly Index

Valuation yields[1] %



[1] Portfolio on an EPRA basis post 2010

Rental value growth[1] %



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

APPENDIX 2 VALUATION

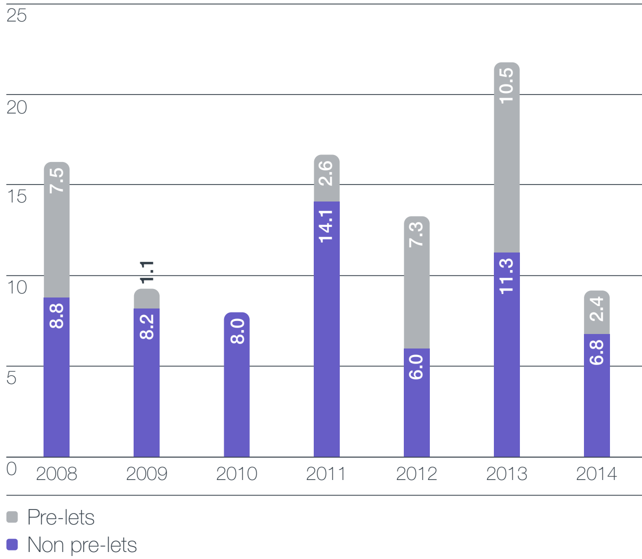
Portfolio statistics – valuation

	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	2,482.0	60	18.5	384.6	2,652	107	91	53	2,903
Borders	400.7	10	19.2	50.4	591	18	5	–	614
	2,882.7	70	18.6	435.0	3,243	125	96	53	3,517
City									
Borders	1,183.4	28	26.3	241.5	1,561	4	12	310	1,887
Central London	4,066.1	98	20.7	676.5	4,804	129	108	363	5,404
Provincial	102.0	2	7.8	7.3	340	–	–	–	340
Total portfolio 2014	**4,168.1**	**100**	**20.4**	**683.8**	**5,144**	**129**	**108**	**363**	**5,744**
2013	3,353.1	100	12.6	352.5	5,185	38	51	430	5,704

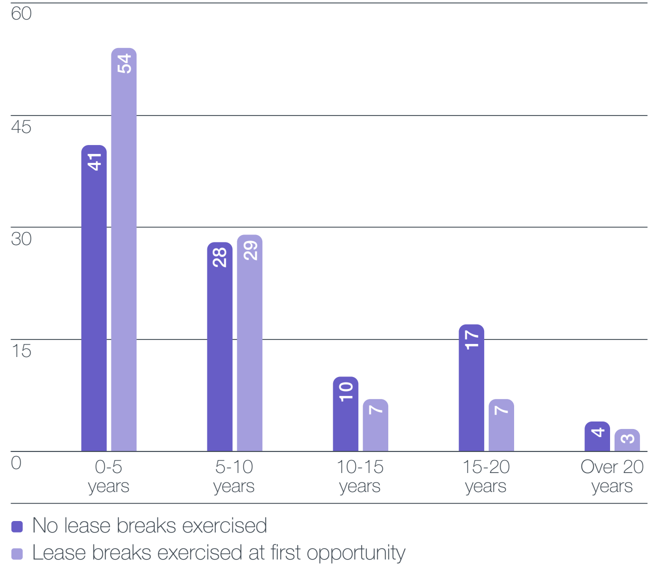
[1] Properties held throughout the year

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 £131.7m

Average unexpired lease length[1] Years

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

Five-year vacancy trend %

APPENDIX 3
PORTFOLIO MANAGEMENT

Rental income profile

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

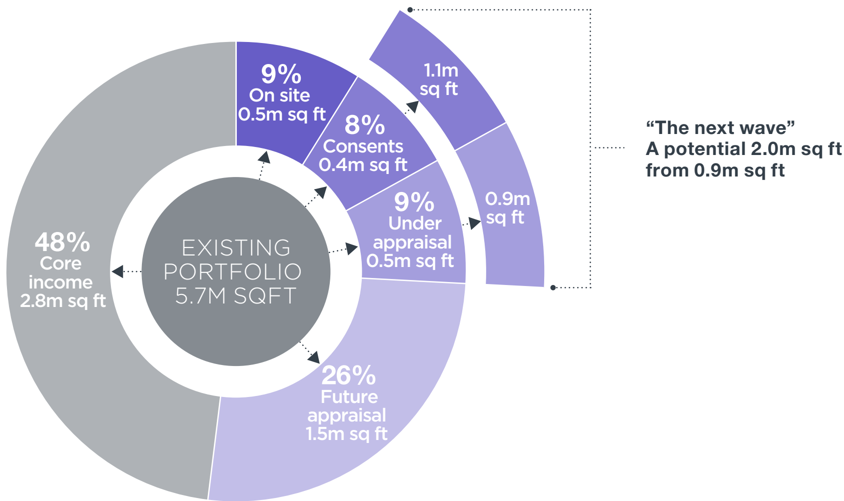
Portfolio statistics – rental income

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

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

APPENDIX 4
PROJECTS

Portfolio composition (by area)



Net investment £m

Completions and capital expenditure

APPENDIX 4 PROJECTS

Project summary 2015-2016

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[2]						
Turnmill EC1	–	41	70	2	Q1 2015	55.00
40 Chancery Lane WC2	–	61	102	10	Q2 2015	65.00
73 Charlotte Street W1	–	13	16	7	Q3 2015	Residential
White Collar Factory EC1	–	124	293	94	Q3 2016	c.55.00
Tottenham Court Walk W1	–	24	38	4	Q2 2015	Retail
	–	263	519	117		
2015/2016 – Consented						
The Copyright Building, 25-33 Berners Street W1	1.4	86	105	51	2017	c.77.50
80 Charlotte Street W1	4.3	234	380	175	2018	c.75.00
55-65 North Wharf Road W2	1.4	78	240	118	2018	c.60.00
	7.1	398	725	344		
Planning and design				27		
Other				51		
Capitalised interest				41		
Total (2015-2016)	**7.1**	**661**	**1,244**	**580**		

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

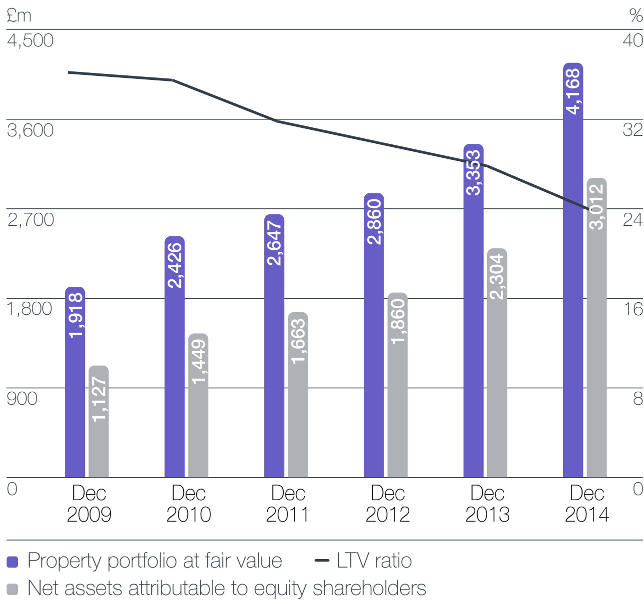
Project summary 2016 onwards

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession Year	Comment
Consented					
1 Oxford Street W1	–	–	275	c.2018	Option site. Offices, retail and theatre
25 Savile Row W1	1.2	42	58	TBC	Residential and retail
	1.2	42	333		
Appraisals[1]					
Wedge House SE1	0.2	39	110	2015	Planning submitted (hotel and offices)
Balmoral Grove N7	0.6	67	200	2015	Residential potential
Monmouth House EC1[2]	1.7	69	125	2017	
Network Building W1	2.4	64	100	2017	
19-35 Baker Street W1	5.3	146	250	2018	
Premier House SW1	1.9	62	80	2018	
Holden House W1	2.8	91	137	TBC	
	14.9	538	1,002		
Adjustment for joint project	(2.4)	(66)	(113)		19-35 Baker Street
	12.5	472	889		
Total (2016 onwards)	**13.7**	**514**	**1,222**		
Total (2015-2016)	**7.1**	**661**	**1,244**		
Total pipeline	**20.8**	**1,175**	**2,466**		

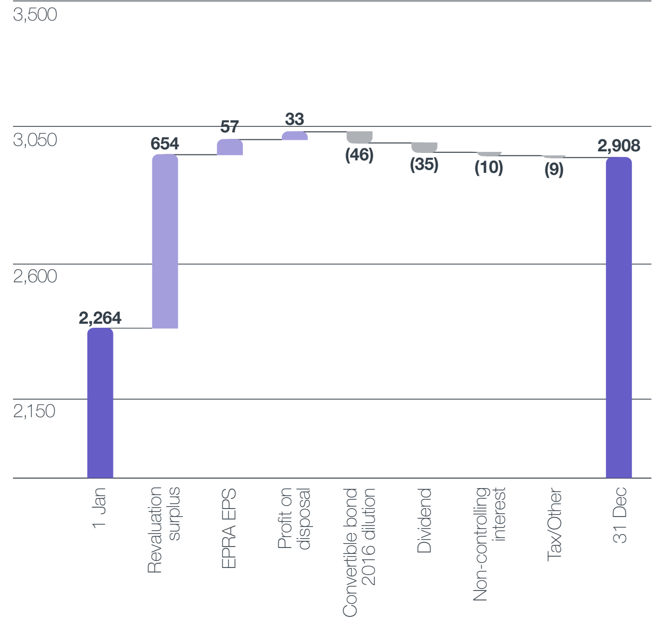
[1] Areas proposed are estimated from initial studies
[2] Includes 19-23 Featherstone Street EC1

APPENDIX 5
FINANCE

Property portfolio value, net assets and gearing

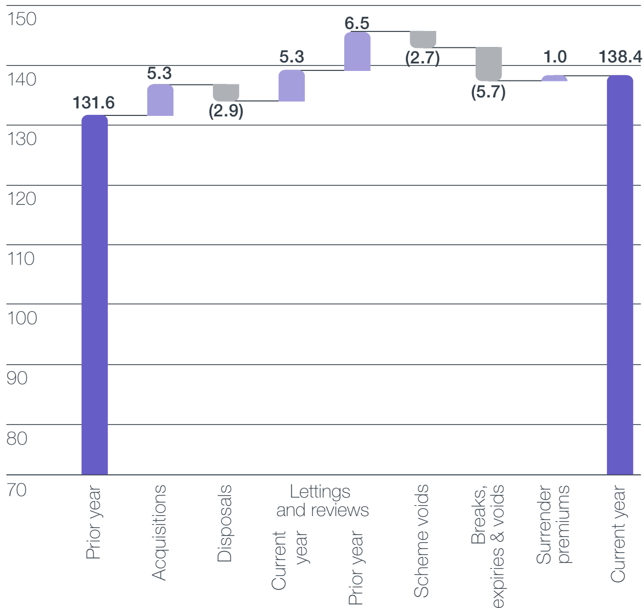


EPRA net asset value per share p



	1 Jan	Revaluation surplus	EPRA EPS	Profit on disposal	Convertible bond 2016 dilution	Dividend	Non-controlling interest	Tax/Other	31 Dec
2014	**2,264**	**654**	**57**	**33**	**(46)**	**(35)**	**(10)**	**(9)**	**2,908**
2013	1,886	330	54	52	(10)	(30)	(7)	(11)	2,264

Gross property income £m



	Prior year	Acquisitions	Disposals	Lettings and reviews: Current year	Lettings and reviews: Prior year	Scheme voids	Breaks, expiries & voids	Surrender premiums	Current year
2014	**131.6**	**5.3**	**(2.9)**	**5.3**	**6.5**	**(2.7)**	**(5.7)**	**1.0**	**138.4**
2013	124.8	4.1	(3.2)	10.1	1.7	(2.5)	(4.0)	0.6	131.6

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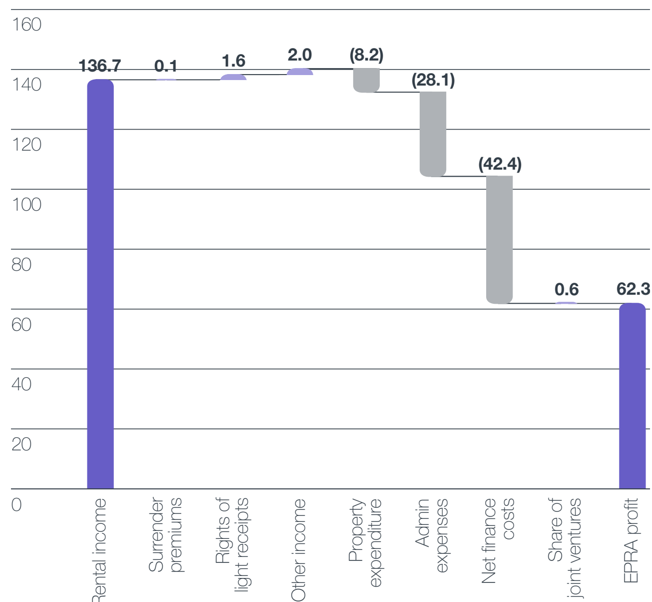
EPRA like-for-like net rental income

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

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



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

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Debt facilities

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

[1] Bonds all redeemed in January 2015

Net debt

	2014 £m	2013 £m
Cash	**(14.8)**	(12.5)
Bank facilities	**347.0**	385.0
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
Acquired fair value of secured bonds less amortisation	**16.0**	16.9
4.41% unsecured private placement notes 2029	**25.0**	–
4.68% unsecured private placement notes 2034	**75.0**	–
2.75% unsecured convertible bonds 2016	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Equity components and unwinding of discounts on convertible bonds	**(12.9)**	(16.8)
Leasehold liabilities	**8.3**	8.2
Unamortised issue and arrangement costs	**(13.3)**	(14.6)
Net debt	**1,013.3**	949.2

Gearing and interest cover ratio

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

[1] After conversion of unsecured convertible bonds 2016

APPENDIX 5
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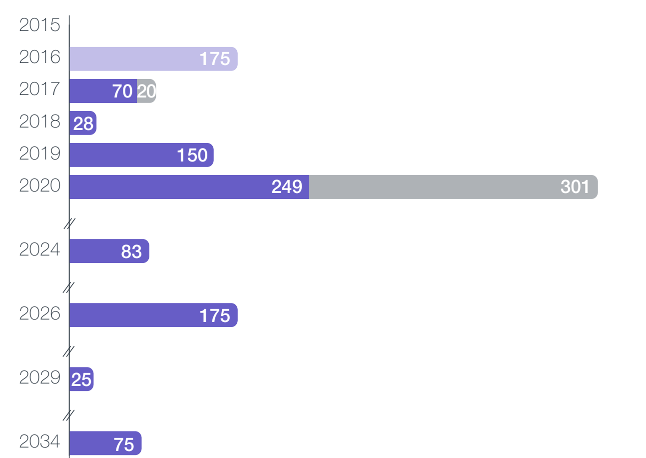
Debt summary

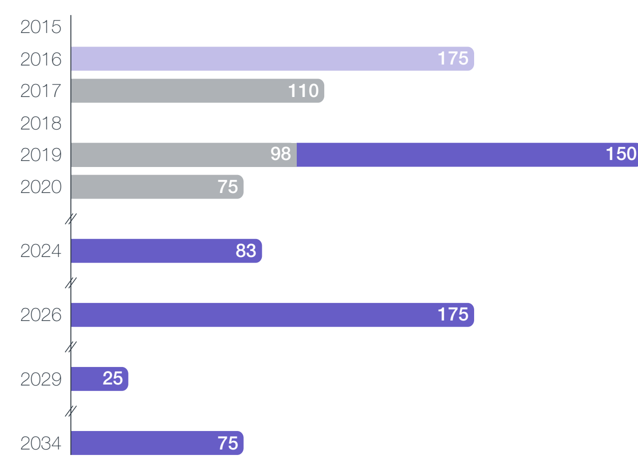
	Proforma[1] £m	2014 £m	2013 £m
Bank loans			
Floating rate	**64.0**	**64.0**	167.0
Swapped	**283.0**	**283.0**	218.0
	347.0	**347.0**	385.0
Non-bank debt			
3.99% secured loan 2024	**83.0**	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	**175.0**	175.0
2.75% unsecured convertible bonds 2016	**–**	**175.0**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

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

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



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



[1] Excludes forward start swaps