DERWENT LONDON

20 March 2007

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

Preliminary results for the year ended 31st December 2006

DERWENT LONDON ANNOUNCES EXCELLENT RESULTS, A TARGET DATE FOR REIT CONVERSION AND STRONG PROGRESS WITH THE LMS INTEGRATION

Derwent London, Derwent Valley Holdings plc's new name following its merger with London Merchant Securities plc ("'LMS") in February 2007, announces its results for the year ended 31st December 2006.

Highlights

- Adjusted net asset value per share rose 33% to 1,770p (31st December 2005: 1,335p). Properties held for the year gained in value by 21.6% (2005: 14.8%).
- Revaluation surplus of £223 million brought the value of the Group's portfolio to over £1.3 billion (2005: £1.0 billion); the portfolio of the merged group now totals £2.5 billion.
- Adjusted profit before tax of £16.4 million (2005: £16.7 million). IFRS profit before tax rose 61% to £242.8 million (2005: £150.4 million).
- Exceptional lettings progress with over 40,000 sq m of space let, primarily at The Johnson Building, Hatton Garden and, following the year-end, Horseferry Road, Victoria.
- Total dividend up 8% to 14.75p (2005: 13.65p).
- Acquisitions of £58.3 million. Disposals realised £31.2 million, producing a profit of £2.9 million
- Total return for the year of 33.6% (2005: 25.5%).
- REIT conversion confirmed with a target date of 1st July 2007.
- Merger to deliver benefits from increased scale and management resource, allowing the Group to undertake larger acquisitions and refurbishment and development schemes.
- 315,000 sq m pipeline of development or refurbishment projects with an estimated completed development value of £2.7 billion.

Financial Highlights

	Year to 31.12.06	Year to 31.12.05	Change %
Adjusted net asset value per share (p)	**1,770**	1,335	33
Gross property income (£m)	**51.3**	49.5	4
Adjusted profit before tax (£m)	**16.4**	16.7	(2)
IFRS profit before tax (£m)	**242.8**	150.4	61
Adjusted earnings per share (p)	**24.83**	26.23	(5)
Dividend per share (p)	**14.75**	13.65	8
Total return (%)	**33.6**	25.5	-

Robert Rayne, Chairman, commented:

"This has been a transformational year and I am delighted to be reporting excellent results for Derwent London. The Group is now the sixth largest UK listed property company, with a market capitalisation in excess of £2 billion. I am also pleased to confirm that the Group is planning to elect for REIT status. The targeted conversion date is 1st July 2007.

"With yield compression unlikely to contribute significantly to performance, it is encouraging that rental growth in central London, where the portfolio's average rent is only £255 per sq m, looks firmly set to continue. For Derwent London shareholders, the future offers the exciting prospects of REIT status, a portfolio packed with opportunities and a specific focus on central London. I look forward to reporting to you later in the year on the Group's progress."

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DERWENT LONDON PLC
PRELIMINARY ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31st DECEMBER 2006

CHAIRMAN'S STATEMENT

After a transformational year, Derwent London, Derwent Valley Holdings' new name following its merger with London Merchant Securities (LMS), reports excellent results for the year ended 31st December 2006.

The merger created one of London's leading West End office specialists with a market capitalisation in excess of £2 billion making it the sixth largest UK listed property company. The benefits and the prospects for the enlarged group are dealt with below.

Results overview

The merger was completed on 1st February 2007 and, accordingly, these results do not include those of LMS. The adjusted net asset value increased by 33% to £950 million, equivalent to 1,770p per share compared with 1,335p last year. The property portfolio was valued at £1.3 billion, producing a surplus of £223 million on the previous year. Properties held for the full year gained in value by 21.6% compared to 14.8% in 2005.

At £16.4 million, adjusted profit before tax was marginally lower than the £16.7 million achieved last year. Profits were held back as a consequence of the group's strategy of foregoing income and taking possession of properties where opportunities for value enhancing development schemes were evident.

During the year, £58.3 million was expended on acquisitions including £24.8 million on the Astoria, Charing Cross Road and 17 Oxford Street. At £18.7 million, capital expenditure on projects was lower than anticipated due to unexpected delays caused by the increasingly protracted planning environment within which the group operates. Disposal proceeds totalled £31.2 million and gave a profit of £2.9 million.

Dividends

The terms of the merger with LMS necessitated a change to the timing of the payment of the 2006 final dividend. Shareholders of Derwent Valley Holdings received a second interim dividend of 10.525p per share on 23rd February 2007, in lieu of the final dividend normally paid in June. This, together with the first interim dividend of 4.225p paid on 6th November 2006, gave a total payment for the year of 14.75p, an increase of 8% on the previous year. The company's next dividend payment will be the interim dividend for the year to 31st December 2007, which is expected to be paid in November 2007.

Market review

Rental growth fulfilled expectations, especially in the West End, as tenant demand flourished and the supply of vacant space receded. Yield compression was also still evident as demand from the investment market showed no sign of faltering.

The year was an exceptionally productive one for the group in terms of letting activity, the high points being the successes at its three largest projects. In the first half of the year, Telstar, Paddington, where the group is acting as development manager for Prudential, was prelet to Rio Tinto. The Johnson Building, Hatton Garden, is now fully let and Horseferry House, Victoria was prelet to Burberry as its new global headquarters, at a very early stage of its refurbishment. These three transactions, which combined have a floor area of 39,000 sq m, demonstrate the high level of demand for the group's product. For Derwent London, continuing this success involves three principal factors that the board believe give a competitive advantage. First, create interesting and design-led space that stands apart. Second, be enterprising and prepared to invest in those London villages that have the essential characteristics necessary for future improvement. Third, target schemes predominantly at the middle market, where rents are in the range of £375-£650 per sq m. Applying these principles to the merged portfolio, which comprises over 440,000 sq m of space in central London and has a project pipeline of 315,000 sq m, should deliver further net asset growth.

Merger

The merger effectively doubled the size of the company. This, together with the additional depth in management resource, will allow the group to make larger acquisitions and increase the scale of its future redevelopment and refurbishment schemes in central London.

Integration of the two businesses is proceeding smoothly with a phased transfer of personnel to Savile Row due to be completed by early April. The annual cost savings, to be achieved through synergy, are estimated at £4.5 million by 2008. The net savings in 2007 are expected to be half this figure.

The combination of the two companies' portfolios presented a unique opportunity to create a new major ownership within the central London commercial property market, with £2.2 billion of property located in this key sector. Whilst Derwent Valley Holdings focussed its efforts solely within this area, LMS historically held some of its assets outside London. It is the board's intention that the new group will become wholly concentrated on central London and, therefore, assets outside this core area, with a value of £0.3 billion, will be disposed of in a timely and efficient way. The proceeds of these sales will either be recycled into the extensive pipeline of projects or reinvested in new properties.

The enlarged group has a significantly enhanced presence in two major London hubs – the West End and the City borders – which are currently two of the most dynamic locations for property investment. The total portfolio value is £2.5 billion, of which £1.7 billion is in the West End, and £0.5 billion in the City borders. Traditionally, Derwent Valley Holdings pursued a policy of owning assets with a relatively short lease profile, which provided future refurbishment and development opportunities. In contrast, LMS concentrated on letting buildings on longer leases and at some of the larger buildings, these leases are approaching the end of their terms. This will present exciting opportunities to apply Derwent's design-led philosophy and active asset management approach to regenerate the properties and enhance value.

The board

In addition to my appointment as chairman, the merger has brought other changes to the board. I am delighted that John Ivey, the company's former chairman, has agreed to become deputy chairman. John has made a substantial contribution to the development of the group and I look forward to benefiting from his knowledge and experience. John Burns, Derwent Valley Holdings' managing director, became chief executive officer of the enlarged group and Simon Silver became head of development. Nick Friedlos joined the board in an executive capacity and June de Moller and Donald Newell, former non-executive directors at LMS, continue in that capacity for the enlarged group.

REITS

The group is planning to elect for REIT status and shareholders will shortly receive a circular convening an EGM to approve the changes to the company's articles of association needed to achieve this. The targeted conversion date is 1st July 2007.

Upon conversion, the group will be required to pay a one-off charge calculated at 2% of the group's gross assets. Based on the proforma value of the investment portfolio, the conversion charge would be £46 million.

The board has reviewed its dividend policy in light of the merger and the pending conversion to REIT status. Historically, the group's strategy has been to maximise total returns and this will continue post the merger and REIT conversion.

The board has concluded that Derwent London will pay dividends broadly equal to the aggregate of the current dividend distributions of the two companies plus a significant proportion of the tax saving on recurring profit arising from REIT conversion. Since conversion will take place part way through 2007, the dividend for this year will be adjusted accordingly.

Going forward, the board plans to continue the group's existing progressive dividend policy, in line with adjusted earnings growth.

The board consider that the benefits to the group of converting to a REIT are:

- A globally recognised structure for investors to gain exposure to the group's assets
- No tax on property rental income or chargeable gains on disposals
- Elimination of latent capital gains tax liability on the investment property portfolio – a proforma amount of £293 million.

Prospects

With yield compression unlikely to contribute significantly to performance, it is encouraging that rental growth in central London, where the portfolio's average rent is only £255 per sq m, looks firmly set to continue. For Derwent London shareholders, the future offers the exciting prospects of REIT status, a portfolio packed with opportunities and a specific focus on central London. I look forward to reporting to you later in the year on the group's progress.

R.A. Rayne
20th March 2007

OPERATING REVIEW

Strategy and performance

Derwent London is a leading commercial property company with a specific focus on central London offices. Our specialist operating areas are the established and prospering 'villages' of the West End and the City borders. The prospects for our market place remain exciting, with London's economic growth leading the country, a trend that is set to continue. In addition, the occupational market is favouring property owners. There is strong demand for offices at a time which coincides with a shortage of available quality space that is being exacerbated by planning bureaucracy. The outcome is an upward movement on rents, particularly in our targeted middle market. With rents between £375-£650 per sq m, this still offers tenants good economic value.

Following the recent merger, the group now has ownership of a £2.5 billion portfolio. Nearly 90% by value is located in our core operating area of central London and provides in excess of 440,000 sq m of accommodation. The West End, which encompasses Victoria, Belgravia, Fitzrovia, Noho, Baker Street, Paddington, Soho and Covent Garden, is the focal area with 69% by value.

Last year, a number of key objectives were set out. These, together with the progress that has been made towards achieving them during 2006, are reviewed below.

1. Ownership of a portfolio with significant opportunities for value enhancement through refurbishment or redevelopment.

   Our strategy is to assemble and retain a core portfolio that has the characteristic of existing low rents and that offers an important refurbishment and development pipeline. In this regard, asset management activity and acquisitions undertaken during the year have significantly enhanced the portfolio's potential. This includes the swap transaction with The Crown Estate and the acquisition of further properties to add to our existing holdings in Charing Cross Road. In addition, the merger has created a unique opportunity to bring under one ownership similar "style" properties to which our proven management skills will be applied to extract further value.

2. Active lease management to improve rental income.

   We endeavour to maximise rental income both through the letting of our completed projects and by ensuring that occupancy and income is preserved in buildings earmarked for redevelopment. As an example, at North Wharf Road, Paddington, 2,700 sq m was quickly re-let, following a lease surrender. The new lettings incorporate a number of lease breaks, which give us control over the timing of what is a major redevelopment opportunity.

3. Maintain a pipeline of projects that can be delivered according to market conditions.

   Our development team continually instigate and evaluate planning studies to ensure an appropriate supply of schemes. Following the merger, the projects on which we are currently on site total over 59,000 sq m, of which 38,000 sq m is pre-let. The total project pipeline is over 315,000 sq m and this places us in a strong position for future value creation.

4. Deliver, and let projects on time and on cost.

   Our largest project to date, the 13,900 sq m Johnson Building, was completed on time and on budget and is now fully let. Capital expenditure on various projects during the year totalled £18.7 million, with a further £193 million planned for the enlarged group over the next two years.

5. Apply and promote contemporary architecture and forward-thinking techniques through the Derwent London design brand.

   Through our selection of architects, under the direction of Simon Silver, we continue to work with emerging talent from progressive practices in order to promote the Derwent London style and brand. This design philosophy delivers interesting buildings that people want to work in, thereby improving the opportunity for letting success and value enhancement.

   We actively support New London Architecture, which promotes quality in urban design through exhibitions on forthcoming projects in London. As part of this, in 2006, we were principal sponsors for "The Office", an event exploring innovation and change in workplace design.

6. Recycle capital for reinvestment when potential is maximised.

   Although disposals were at a slower pace than in previous years, due to the approaching REIT regime, we continue to divest 'mature' assets in strong market conditions to free up capital to invest in situations that are capable of generating better returns. During the year, the portfolio benefited from the work that had previously been undertaken to position our assets to benefit from rental improvement and yield compression.

The results translated into a property return of 26.7% for the year, compared to 20.1% in 2005. Looking forward, we are encouraged by the strong levels of letting activity seen so far this year in the central London office market. With vacancy rates forecast to remain at low levels over the next few years, these conditions look set to continue to deliver rental growth.

Valuation commentary

The year under review saw unprecedented demand for central London property. This was driven by an incessant availability of money, a strong occupational market and a limited supply of office space. Against this background, the investment portfolio was valued at £1.3 billion at 31st December 2006.

The valuation surplus achieved during the year was £224.3 million, before the lease incentive adjustment of £1.0 million. Underlying performance contributed £198.0 million with £94.4 million from rental growth and asset management and £103.6 million from yield compression. The revaluation of development properties added £21.1 million, driven principally by the early pre-letting of Horseferry House. The balancing surplus of £5.2 million came through strong performance from acquisitions.

The underlying valuation uplift was 21.6% compared to 14.8% last year. The West End properties, which represented 74% of the portfolio by value, achieved an increase of 20.9%. With their characteristic low levels of rent, at £314 per sq m, they were well positioned to capitalise on the strong improvement in rents, and consequently capital values. In particular, Victoria, which has one of the lowest vacancy rates of the central London villages, enjoyed a valuation increase of 25.7%. Noho properties were up 20.4% and Soho/Covent Garden achieved 18.0%. Properties in the City borders and Holborn made up the remaining 26% of the portfolio and here the valuation increase was 23.6%. An important contribution to this was the valuation surplus of £28.9 million at The Johnson Building, which was completed and virtually fully let before the end of the year.

Portfolio management

Our strategy of increasing the momentum of the project programme over the last two years has produced excellent results, with letting activity at record levels. During the year, lettings totalled over 40,000 sq m, excluding Telstar, and achieved an annualised income of over £12.6 million per annum. The key lettings were at The Johnson Building and Horseferry House, which together will ultimately produce over £10 million per annum of rental income. In addition, we remained active at a number of our multi-let buildings, such as Morelands and the Tea Building on the City borders. Both of these are now at full occupancy, which demonstrates the strength of the letting market.

With the strong demand for space in our core locations, we have seen a hardening of rents and a reduction in incentives offered. Our innovative design-led product is proving attractive and is encouraging tenants to look outside the more 'traditional' areas for space. We have attracted tenants from a diverse range of sectors such as advertising agencies to Holborn, a fashion house to Victoria and an international mining company to Paddington.

We have also been active in managing income at properties where there are potential schemes, viewing these in tandem with our planning studies. Accordingly, we have undertaken a number of "light touch" refurbishments and effected lettings that will produce valuable, short-term income as we progress our longer-term development aspirations.

At the year end, vacant space in the portfolio available for occupation was only 10,200 sq m, which represented a low void rate of 3.0% of the portfolio rental value and 4.2% of the floor area. This included the recently completed schemes at 186 City Road (3,600 sq m) and St Cross Street, EC1 (1,750 sq m), the latter of which is now let.

Other vacant space, which is either under refurbishment or identified for future projects, stood at 17,400 sq m and included the proposed new office building at Gresse Street and our mixed-use scheme at Portobello Dock. Total vacant space at the year end was 27,600 sq m, down from 38,100 sq m at the prior year. The reduction from last year's level was also due to the successful re-letting of space which became vacant during the year.

In addition to lettings, the rent reviews that were completed during the year showed an average increase of 11% in annual income. We are committed to working closely with our tenants and, where possible, retaining them within the portfolio when their leases come to an end. As a result, we were able to successfully undertake 35 renewals last year. We believe that the ability to work with our tenants to fulfil their evolving requirements has been substantially enhanced through our merger and the consequent increase in the size and reach of our portfolio.

The activity during the year increased the annualised rental income, net of ground rent, to £54.1 million at the year end. After the inclusion of the pre-let income from Horseferry House, this rises to £59.4 million per annum. In addition, there is significant reversion of £7.4 million from letting vacant and scheme space, and £12.0 million from further rent reviews and lease reversions.

Acquisitions and disposals
Within the current extremely competitive investment market, and alongside several new acquisitions, we continue to create value with our existing assets. A property swap was completed with The Crown Estate, in which we acquired the freeholds of Riverwalk House, Victoria and Argosy House, Noho. This substantially improved the value of our interest at both of these properties, and, more importantly, unlocked significant future refurbishment and redevelopment potential. It is this type of forward-planning and flexible strategy that will ensure a strong ongoing pipeline of schemes for the future.

In June, in what is identified as a strategic, long-term site assembly, we acquired the Astoria, Charing Cross Road, and a nearby property in Oxford Street for £24.8 million. These buildings adjoin our existing holdings in Charing Cross Road and are all part of the designated West End Special Policy Retail Area and a Crossrail interchange. Since acquisition, important progress has been made with the signing of an Oversite Development Agreement with Crossrail. As part of this agreement, we will now co-ordinate and promote the planning process for the potential redevelopment. In return, we have an option to reacquire the site following Crossrail transportation works. Whilst this is a long-term proposal, the investments are fully income producing and the location offers good interim growth potential.

During the year, we disposed of assets for a total of £31.2 million. As part of the swap transaction with The Crown Estate, Morley House, which had undergone a rolling refurbishment following acquisition in 2001, was sold for £17.5 million. Other disposals were our residential development, known as Sweeps in Hatton Garden, and four Islington properties.

The combined portfolio
In a proforma balance sheet based on Derwent Valley Holdings' results to 31st December 2006 and LMS's completion accounts at 31st January 2007, the investment portfolio is valued at £2.5 billion.

Properties in central London, which is the group's principal operating area, account for £2.2 billion of the value and provide 440,000 sq m of predominantly office space. They are let at a low average rental of £255 per sq m and have an average unexpired term of 10.2 years.

The balance of the investment portfolio is located in the provinces with a focus on retail assets.

Overall the total annual income, net of ground rents, is £113.4 million, with a potential rental value of £153.4 million. This significant reversion is derived from £17.2 million of vacant accommodation and £22.8 million of rent reviews and lease renewal reversions. Looking at the vacancy rate, approximately a third is from The Qube development, which is nearing completion. Actual space available for letting is low at under 2% of the portfolio's rental value.

Refurbishment and redevelopment
It is into a favourable and strengthening market place that we have been progressively delivering space. Our schemes share the strong Derwent London characteristics of contemporary design, uncluttered and flexible spaces and an uncompromising attention to detail.

The Johnson Building in Hatton Garden, completed in the first half, provides 13,900 sq m of attractive office accommodation, around an impressive central atrium. This development has fulfilled our aspirations of delivering something special into an improving location. The appeal and success of this building has been confirmed with lettings to major names such as Grey Advertising, Faber Maunsell and Thomson Scientific.

Looking forward, a number of major projects are under construction. Telstar, Paddington, the 9,900 sq m building, where we are development managers on behalf of the Prudential, was pre-let during the year to mining group Rio Tinto for an annual rent of £4.95 million per annum. This rental set a new benchmark for the area. With the core, frame and floor slabs complete, the façade is now progressing quickly, creating an exciting building. Practical Completion is scheduled for summer 2007. The prominence of the location and the design will ensure this will be a local landmark.

Following the grant of planning consent for an increase in floor area and substantial alterations, enabling works have commenced at Horseferry House, Victoria. This has revealed the building's expansive potential, which will be transformed into some exceptional open spaces. The refreshingly, modern design approach to this imposing 1930's building attracted an early pre-let in December, with Burberry leasing the entire 15,200 sq m building for £5.3 million per annum. Upon completion, which is scheduled for spring 2008, this will become their new global head office.

In Noho, a 4,400 sq m project is planned at Gresse Street. Here, we intend to improve the area and, thereby, the value of our adjacent holdings, through the delivery of an eye-catching Derwent London scheme. Thoughtfully presented public realm, and a mix of uses, will turn this under-appreciated location into a vibrant new destination for occupiers.

Elsewhere, other smaller projects will allow the group to take advantage of the current strong occupational environment. A canal-side, mixed-use scheme of 6,400 sq m at Portobello Dock, Ladbroke Grove is underway. A varied range of commercial and residential units will be delivered to the market from autumn 2007. In addition, we have recently completed the refurbishment of 186 City Road, EC1. This handsome building offers 3,600 sq m of high quality, flexible office space in a convenient location on competitive terms.

In order to ensure the ongoing delivery of similar value-creating schemes, we have secured and are progressing a significant pipeline of projects across our London villages. These range from those currently at the planning stage to others that may be several years from commencement but are undergoing rigorous feasibility studies. Of the former, we have recently agreed the final planning obligations for our proposed 47 residential units and 2,000 sq m of commercial space at Leonard Street on the City borders. Another project where we obtained planning consent in the latter part of 2006 is Wedge House, Southbank. When vacant possession is obtained in mid 2008, we intend to replace this tired, 3,600 sq m, 1960's office building with an exciting design, providing 8,200 sq m of new accommodation.

A number of important, future projects, which are at the planning stage, are being advanced. In the summer, we made an application for a new office building of 9,900 sq m in Chancery Lane, Holborn, and we will be shortly submitting a revised application for our North Wharf Road development in Paddington. The latter will include a 23,000 sq m office building with a cutting-edge design, which will be accompanied by a separate residential building of nearly 100 units. This highly complex regeneration project is in a pivotal location and we are currently in detailed discussions with the planning authorities as to the mix of land uses for the scheme.

For the mid- to longer-term, a number of major holdings have been identified with scope for large-scale redevelopments. Following the swap with The Crown Estate, we improved our tenure by acquiring the freehold at Riverwalk House in Victoria. This building occupies a substantially under-utilised site in a prime location overlooking the Thames. At lease expiry in 2011, this will provide an attractive redevelopment scheme in the order of 18,600 sq m, which could incorporate exceptionally high quality residential accommodation. At Charing Cross Road, we continue to explore the long-term possibilities for our interests. This is an extensive project, incorporating numerous sites and stakeholders, as well as significant involvement with London Underground and Crossrail. The opportunity to participate in a regenerative project of this scale is eagerly anticipated. Initial studies indicate the potential for over 28,000 sq m of space. Additionally, in association with our freeholder, The Grosvenor Estate, we have initiated preliminary architectural studies of 1-5 Grosvenor Place at Hyde Park Corner. The combination of this landmark location and the potential for the site presents an exceptional opportunity in the West End. The existing buildings total 15,000 sq m and there is potential to double this following redevelopment.

The merger has added substantial current and future schemes to the pipeline. Initial focus is on Fitzrovia, where 21% of the merged portfolio is held and where the group has commenced a long-term programme of projects which will regenerate its holdings and re-establish the area as a core West End office location.

The most immediate project is The Qube, which will be delivered to the market in summer 2007. This 10,000 sq m office building, one of the few large-scale new buildings available in the West End this year, is attracting early interest. We are also on site at the adjacent 13,200 sq m Arup Phase II and III development. A further, important holding in the area, with long-term potential, is the 18,600 sq m of properties, centred on Charlotte Street, let to Saatchi & Saatchi.

Another potential major scheme is the Angel Centre, Islington, a prominently located 15,000 sq m office building. This is an improving area and studies have been instigated for a substantial refurbishment and creation of additional space, along the lines of The Johnson Building scheme.

The overall pipeline for the merged group is 315,000 sq m, with an estimated completed development value of £2.7 billion.

J.D. Burns
20th March 2007

FINANCIAL REVIEW

The group's results are prepared in compliance with International Financial Reporting Standards (IFRS) and the accounting polices as set out in the notes to the accounts. This is the second year that the accounts have been produced on this basis, which is now more widely understood. Some of the standards work better than others for property investment companies, evidenced by the number of adjustments the investing community makes to the key IFRS figures. It is the adjusted figures that the board uses in monitoring performance and these are included in the discussion below.

2006 results commentary

The 2006 results are those for a period ended prior to the merger with London Merchant Securities plc (LMS). The headline numbers are:

	2006	2005
Net property income (£m)	58.0	46.6
Adjusted profit before taxation (£m)	16.4	16.7
Profit before taxation (£m)	242.8	150.4
Adjusted net asset value per share (p)	1,770	1,335

Net property income

Net property income includes rent received from the tenants of the group's investment properties, less the associated property outgoings, and development income. These are reviewed in turn. Gross property income (GPI) (rents received) rose 3.6% year on year to £51.3 million. This increase of £1.8 million is the net result of a number of key decisions taken in respect of the business. As noted last year, the board, taking account of the current environment in which the group operates, has been pressing on with the refurbishment and redevelopment programme. In 2006, lettings added £3.6 million to GPI and the letting of completed schemes was the main component of this. The biggest impact from lettings came from The Johnson Building and St Cross Street (£0.9 million), Tea Building (£0.7 million) and Holden House (£0.6 million). However, this continuous drive to create value in the portfolio, as described in the property review, has also had a negative effect on GPI due to buildings being emptied to enable schemes to commence. The main losses of income have been at Horseferry House (£0.9 million), Kensal House/Portobello Dock (£0.7 million) and North Wharf Road (£0.5 million), although the latter was offset by a £1.0 million premium paid by a departing tenant. GPI also rose due to rent reviews, which added £1.2 million, largely derived from the February 2006 review at Henry Wood House, and from the acquisition of Horseferry House in 2005 and the Astoria in 2006. Finally, disposals, made in 2005 and 2006 reduced GPI by £2.4 million.

Development income is a new item in 2006. This relates to the group's share of the profit estimated to have been earned from managing the Telstar redevelopment on behalf of Prudential. While the development has been prelet, the group will not receive payment for the profit until after practical completion later this year, when the final profit share will be calculated. The profit earned during 2006 has been estimated at £11.6 million.

The final component of net property income is the property outgoings. These rose from £2.9 million in 2005 to £4.9 million. Substantial movements in property expenses are usually related to the commencement and completion of schemes, and 2006 was no exception. Void costs rose by £1.0 million of which £0.6 million related to costs at The Johnson Building post completion and prior to letting. In tandem with the letting activity, letting fees increased £0.3 million to £0.9 million.

The net result of the above is that, in spite of the level of development activity, gross property income less property outgoings at £46.4 million almost matched last year's figure of £46.6 million, while net property income rose in total by 24% to £58.0 million with the inclusion of the development income.

Profit before taxation

The adjusted profit before taxation which takes no credit for the development income, nor the exceptional finance costs, was £16.4 million. This compares with the £16.7 million reported in 2005. The lower profit derives from an increase in administrative costs of £1.3 million to £10.1 million. Employment costs are the group's major overhead and these rose £0.9 million in 2006 to £7.0 million. Profits benefited from a £1.1 million fall in interest costs, notably due to finance lease costs which were £0.4 million lower both because of the sale of leasehold properties and the buying in of freehold interests.

Profit before tax for the year was £242.8 million compared with £150.4 million in 2005. The largest item in the group income statement is the revaluation surplus of £223.3 million, which showed an increase of £99.2 million on last year's figure. A further £3.5 million of valuation surplus is included in the joint venture results. An explanation of the factors behind these surpluses can be found in the operating review. Other items that reconcile the adjusted profit to IFRS profit before taxation include property disposal profits of £2.9 million and the fair valuation of derivatives, which this year gave rise to a profit of £3.2 million. Profit on disposals was down £6.7 million, year on year, on proceeds reduced from £97.8 million to £31.2 million in the run up to the conversion to REIT status.

The final item, the exceptional finance cost of £18.1 million, was the cost of redeeming the company's $10^{1}/_{8}\%$ First Mortgage Debenture Stock 2019 in November. This is discussed further under "Financing".

Tax expense
Full details of the tax expense of £60.6 million can be found in the tax note. The largest item is the deferred tax expense which represents tax that may be payable in the future. A consequence of the debenture redemption is that the group actually paid little tax during the year.

Dividend
For technical reasons connected with the company's merger with LMS in 2007, the board will not be proposing the payment of a final dividend. In its place, a second interim dividend was paid on 23rd February 2007, which was equivalent to the expected final dividend. The two interim dividends totalled 14.75p per share and compare with the combined interim and final for 2005 of 13.65p per share, an increase of 8%. This is well ahead of the inflation rate for the year.

Net assets
Net assets rose £177.2 million to £783.4 million at 31st December 2006, following the annual valuation of the group's investment properties to a total of £1.3 billion. This resulted in an adjusted net asset value per share of 1,770p, compared with 1,335p at the 2005 year end and 1,540p reported at the interim stage. These are increases of 32.6% and 14.9% respectively. The adjustments made to arrive at this figure are shown in the notes to the accounts.

Cash flow
The group's underlying operational business generated a cash inflow of £13.3 million before deducting the cost of redeeming the debenture of £17.6 million. This compares with £13.7 million in the prior year. For reasons noted earlier, disposal proceeds were reduced in 2006 while the amount spent on property acquisitions increased slightly. Consequently, the net investment in business assets was nearly £48 million. This included capital expenditure, which was lower both compared with last year and budget. However, this was only due to timing variances and schemes such as Kensal Dock and Horseferry House are now well underway. In total, the group saw a cash outflow in 2006 of £59.4 million compared with an inflow in 2005 of £34.5 million.

Financing
Sources of finance
Other than its share capital, the group continued to be predominantly financed in 2006 by a series of bilateral, medium-term, revolving credit facilities from a limited number of banks with whom the group has had long-term relationships. The effect is akin to the group creating its own syndicated loan. While close relationships are maintained with additional banks to satisfy future debt requirements, other sources of finance, which would provide an alternative to bank debt, are also reviewed and considered. The group continues to borrow on a secured basis with only loan to value and interest to rent covenants. However, following the merger with LMS, discussed later, a review of the group's financing arrangements will be undertaken which may lead to a change in this strategy.

At 31st December 2006, bank facilities totalled £430 million of which £87 million was undrawn. An additional £105 million of facilities was agreed during January 2007, not only to provide sufficient funds to cover the next two years' capital expenditure but also allow future acquisitions. None of the bank facilities mature in 2007, the next termination date being in late 2008.

During the year, the company redeemed its £35 million listed debenture, which had been due for repayment in 2019. The $10^{1}/_{8}\%$ coupon on this was out of line with current interest rates and the debenture only accounted for a small amount of the group's total debt. The premium paid for this, together with the costs of redemption, totalled £17.6 million. A further £0.5 million of original issue costs, not previously written-off in accordance with IFRS, were expensed to give a total charge to the group income statement of £18.1 million. This amount can be offset against taxable profits.

Debt and gearing
Although the cash outflow was £59.4 million, net debt only rose to £349.8 million from £303.9 million at the 2005 year end due to a reduction in leasehold liabilities which fell £13.5 million for the reasons noted earlier.

Despite increased borrowings, the relative growth in asset values caused gearing to fall to 44.7%, compared with 50.1% last year and 47.1% reported at the half year. However, in terms of the group's risk profile, the more important ratio is the profit and loss gearing. For the second year running, despite a reduction in balance sheet gearing, this has remained virtually unchanged at 1.85, compared with 2005 at 1.84.

Liability risk management
Adverse movements in interest rates are one of the main risks to which the group is exposed. Therefore, derivatives are used to protect the group against this. Board policy is that sufficient hedging should be entered into such that the total of any fixed rate debt, and that fixed using derivative instruments, is within a range of 40% to 75% of total debt, excluding leasehold liabilities. The actual percentage is dependent on the perceived risk to the group. At the year end, 43% of debt was covered and the weighted average cost of debt was 6.0%

At each reporting date, the derivatives are fair valued and the increase or decrease since the last valuation is reported in the group income statement. For 2006, the movement amounted to a profit of £3.2 million.

Risk management and outlook
While the group cannot be immune from factors affecting the property or financial markets, the board believes that, through regular consideration of these issues, it achieves an appropriate risk/reward profile for the group. Identifying, monitoring and controlling risks so that they are appropriate to the business are amongst the key tasks of a board of directors. The annual review of the five year property strategies, the rolling financial forecasts which turn these into a detailed management reporting tool and the annual risk analysis are some of the means by which the board achieves this. Other examples have been mentioned in this review, for example, the company's banking relationships and hedging policy.

Amongst the key risks faced by the group, are those set out below, together with their effect on the business.

Risk	Effect
Property related	
: increase in valuation yields	Fall in asset values; rise in gearing.
: no/negative rental growth	Fall in asset values; no income growth.
: tenant default	Fall in income; reduced cash inflow.
: development cost overrun	Reduced development surplus.
Finance related	
: rise in interest rates	Reduced profit; increased cash outflow.
: lack of available finance	Inability to refinance debt.
Corporate, social, environmental, including health and safety	Adverse reputation risk; potential fines.

Looking at the profit before taxation's constituent parts for 2007, the net property income will continue to be determined by the balance between the letting of completed schemes and voids caused by the refurbishment and redevelopment programme. Employment costs are the group's biggest overhead, and salaries continue to rise in a competitive, buoyant economy. The level of fixed and hedged debt will provide a large amount of insulation against currently rising interest rates. In terms of net asset growth, yield compression may have found its level, perhaps a reflection of globally rising interest rates, but rental growth is being achieved to drive on asset values if yields remain at their existing levels.

Merger
The company's merger with LMS completed on 1st February 2007. The merger was financed by the issue of 46,910,232 of the company's ordinary shares, £32.5 million of loan notes and a payment of £12.2 million in cash. The proforma consolidated balance sheet shows that the new group has an investment property portfolio valued at £2.5 billion, net assets of £1.4 billion, net debt of £898 million at fair value and gearing of 64%. For the purposes of the proforma balance sheet, the acquired goodwill of £291 million has been assumed to be impaired and consequently written-off. In addition to Derwent London's debt discussed earlier, LMS brings to the debt portfolio a £175 million 6.5% secured bond due 2026 and a £375 million combined term and revolving credit facility repayable in 2013. The new group's current cost of debt is approximately 6.15%, and 62% of debt is either fixed or hedged.

GROUP INCOME STATEMENT

	Note	2006	2005
		£m	£m
Gross property income		**51.3**	49.5
Development income	2	**11.6**	-
Property outgoings	3	**(4.9)**	(2.9)
Net property income		**58.0**	46.6
Administrative expenses		**(10.1)**	(8.8)
Revaluation surplus		**223.3**	124.1
Profit on disposal of investment properties	4	**2.9**	9.6
Profit from operations		**274.1**	171.5
Finance income	5	**0.4**	0.4
Finance costs	5	**(20.4)**	(21.5)
Exceptional finance costs	5	**(18.1)**	-
Movement in fair value of derivatives		**3.2**	-
Share of results of joint ventures	6	**3.6**	-
		242.8	150.4
Tax expense	7	**(60.6)**	(33.7)
Profit for the year		**182.2**	116.7

All amounts are attributable to the equity holders of the parent company.

Earnings per share	8	**340.13p**	218.63p
Diluted earnings per share	8	**337.21p**	216.81p

GROUP BALANCE SHEET

	Note	2006	2005
		£m	£m
Non-current assets			
Investment property	9	**1,274.0**	1,015.6
Property, plant and equipment	10	**0.3**	0.4
Investments		**5.4**	1.8
Derivative financial instruments		**0.1**	-
Other receivables		**13.7**	13.3
		1,293.5	1,031.1
Current assets			
Trade and other receivables		**39.4**	12.3
Corporation tax asset		**1.4**	-
Cash and cash equivalents		**-**	14.7
		40.8	27.0
Total assets		**1,334.3**	1,058.1
Current liabilities			
Bank overdraft		**(2.2)**	(2.0)
Trade and other payables		**(32.5)**	(20.7)
Corporation tax liability		**-**	(3.0)
Provisions		**(0.1)**	(0.1)
		(34.8)	(25.8)
Non-current liabilities			
Bank loans		**(341.0)**	(262.0)
10 1/8% First Mortgage Debenture Stock 2019		**-**	(34.5)
Leasehold liabilities		**(6.6)**	(20.1)
Derivative financial instruments		**-**	(3.1)
Provisions		**(1.3)**	(1.2)
Deferred tax liability	11	**(167.2)**	(105.2)
		(516.1)	(426.1)
Total liabilities		**(550.9)**	(451.9)
Total net assets		**783.4**	606.2
Equity attributable to equity holders of the parent company			
Share capital		**2.6**	2.6
Share premium		**156.1**	155.1
Other reserves		**3.8**	2.3
Retained earnings		**620.9**	446.2
Total equity	12	**783.4**	606.2
Adjusted net asset value per share	14	**1,770p**	1,335p
Net asset value per share	14	**1,460p**	1,134p

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2006	2005
	£m	£m
Profit for the year	**182.2**	116.7
Recognition of financial instruments at 1st January 2005 at fair value under IFRS1 transitional rule	**-**	(2.2)
Deferred tax in respect of share-based payments	**0.6**	1.4
Total recognised income and expense relating to the year	**182.8**	115.9

CHANGE IN SHAREHOLDERS' EQUITY

	2006	2005
	£m	£m
Total recognised income and expense relating to the year	**182.8**	115.9
Dividends paid	**(7.5)**	(6.8)
Share-based payments transferred to reserves	**0.9**	0.6
Premium on issue of shares	**1.0**	1.0
	177.2	110.7
Equity at 1st January	**606.2**	495.5
Equity at 31st December	**783.4**	606.2

All amounts are attributable to the equity holders of the parent company.

GROUP CASH FLOW STATEMENT

	2006	2005
	£m	£m
Operating activities		
Cash received from tenants	**48.7**	46.3
Direct property expenses	**(5.5)**	(3.0)
Cash paid to and on behalf of employees	**(4.5)**	(4.5)
Other administrative expenses	**(3.9)**	(2.8)
Interest received	**0.4**	0.4
Interest paid	**(21.9)**	(21.7)
Exceptional financing costs	**(17.6)**	-
Tax paid in respect of operating activities	**(1.3)**	(1.0)
Net cash (used in)/from operating activities	**(5.6)**	13.7
Investing activities		
Acquisition of investment properties	**(48.9)**	(40.3)
Capital expenditure on investment properties	**(18.9)**	(26.7)
Disposal of investment properties	**31.2**	97.8
Acquisition of subsidiary	**(6.2)**	-
Merger transaction costs	**(0.4)**	-
Purchase of property, plant and equipment	**(0.2)**	-
Tax paid in respect of investing activities	**(2.9)**	(3.2)
Net cash (used in)/from investing activities	**(46.3)**	27.6
Financing activities		
Movement in bank loans	**78.5**	(26.0)
Redemption of debenture	**(35.0)**	-
Net proceeds of share issues	**1.0**	1.0
Dividends paid	**(7.5)**	(6.8)
Net cash from/(used in) financing activities	**37.0**	(31.8)
(Decrease)/increase in cash and cash equivalents in the year	**(14.9)**	9.5
Cash and cash equivalents at the beginning of the year	**12.7**	3.2
Cash and cash equivalents at the end of the year	**(2.2)**	12.7

NOTES

1. Basis of preparation

The results for the year ended 31st December 2006 include those for the holding company and all of its subsidiaries, together with the group's share of the results of its joint ventures.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

2. Development income

The amount of £11.6 million (2005 - £nil) is the proportion of the total profit share estimated to have been earned by the group from the construction and letting of a property on behalf of a third party.

3. Property outgoings

	2006	2005
	£m	£m
Ground rents	**0.4**	0.2
Other property outgoings	**4.5**	2.7
	4.9	2.9

4. Profit on disposal of investment properties

	2006	2005
	£m	£m
Disposal proceeds	**31.2**	97.8
Carrying value	**(30.7)**	(90.1)
Leasehold liabilities	**2.4**	1.9
	2.9	9.6

5. Finance income and costs

	2006	2005
	£m	£m
Finance income		
Bank interest received	**0.4**	0.4
Finance costs		
Bank loans and overdraft wholly repayable within five years	**12.7**	8.4
Bank loans not wholly repayable within five years	**3.7**	8.2
Debenture stock	**3.1**	3.6
Finance leases	**0.9**	1.3
	20.4	21.5
Exceptional finance costs	**18.1**	-
Total finance costs	**38.5**	21.5

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The exceptional finance costs arose from the redemption of the 10 1/8% First Mortgage Debenture Stock 2019.

6. Share of results of joint ventures

	2006	2005
	£m	£m
Profit from operations before revaluation surplus	**0.1**	-
Revaluation surplus	**3.5**	-
	3.6	-

7. Tax expense

	2006	2005
	£m	£m
Corporation tax expense		
UK corporation tax and income tax on profits for the year	**0.7**	4.0
Adjustment for (over)/under provision in prior years	**(1.0)**	0.6
	(0.3)	4.6
Deferred tax expense		
Origination and reversal of temporary differences	**60.6**	30.9
Adjustment for under/(over) provision in prior years	**0.3**	(1.8)
	60.9	29.1
	60.6	33.7

The tax for both 2006 and 2005 is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2006	2005
	£m	£m
Profit before tax	**242.8**	150.4
Expected tax expense based on the standard rate of corporation tax in the UK of 30% (2005 - 30%)	**72.8**	45.1
Indexation relief on investment properties	**(11.1)**	(8.0)
Difference between tax and accounting profit on disposals	**0.2**	(1.4)
Other differences	**(0.6)**	(0.8)
Tax expense on current year's profit	**61.3**	34.9
Adjustments in respect of prior years' tax	**(0.7)**	(1.2)
	60.6	33.7
Tax credited directly to reserves		
Deferred tax on fair value of derivative financial instruments	**-**	(0.9)
Deferred tax on share-based payments	**(0.6)**	(1.4)
	(0.6)	(2.3)

8. Earnings per share

	Profit for the year £m	Weighted average number of shares '000	Earnings per share p
Year ended 31st December 2006	182.2	53,567	**340.13**
Adjustment for dilutive share-based payments	-	464	**(2.92)**
Diluted	182.2	54,031	**337.21**
Year ended 31st December 2005	116.7	53,378	218.63
Adjustment for dilutive share-based payments	-	447	(1.82)
Diluted	116.7	53,825	216.81
Year ended 31st December 2006	182.2	53,567	**340.13**
Adjustment for deferred tax on capital allowances	2.7	-	**5.04**
Adjustment for disposal of investment properties	(1.7)	-	**(3.17)**
Adjustment for group revaluation surplus	(167.0)	-	**(311.76)**
Adjustment for share of joint ventures' revaluation surplus	(2.9)	-	**(5.41)**
Adjusted	13.3	53,567	**24.83**
Year ended 31st December 2005	116.7	53,378	218.63
Adjustment for deferred tax on capital allowances	(0.8)	-	(1.50)
Adjustment for disposal of investment properties	(7.0)	-	(13.11)
Adjustment for group revaluation surplus	(94.9)	-	(177.79)
Adjusted	14.0	53,378	26.23

The adjusted earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, together with the profit or loss after tax arising from the disposal of investment properties. The adjusted earnings per share figure also excludes the deferred tax charge provided in respect of capital allowances claimed, on the basis that it is unlikely that a liability will ever crystallise. These adjustments are widely made by equity analysts and investors.

9. Investment property

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1st January 2006	724.2	291.4	1,015.6
Transfer	38.5	(38.5)	-
Additions	76.1	0.9	77.0
Disposals	(10.3)	(20.4)	(30.7)
Revaluation	196.7	26.6	223.3
Movement in grossing up of headlease liabilities	-	(11.2)	(11.2)
At 31st December 2006	**1,025.2**	**248.8**	**1,274.0**
At 31st December 2006			
Fair value	1,039.7	243.0	1,282.7
Adjustment for rents recognised in advance	(14.5)	(0.8)	(15.3)
Adjustment for grossing up of headlease liabilities	-	6.6	6.6
Carrying value	1,025.2	248.8	1,274.0
At 1st January 2006			
Fair value	737.5	272.3	1,009.8
Adjustment for rents recognised in advance	(13.3)	(1.0)	(14.3)
Adjustment for grossing up of headlease liabilities	-	20.1	20.1
Carrying value	724.2	291.4	1,015.6

Investment property in the course of development with a carrying value of £91.8 million (2005 - £75.0 million) is included in the carrying value of freehold property above.

The freehold land and buildings and leasehold property were revalued at 31st December 2006 by either CB Richard Ellis Limited or Keith Cardale Groves (Commercial) Limited, as external valuers, on the basis of market value as defined by the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors.

At 31st December 2006, the historical cost of investment property owned by the group was £688.9 million (2005 - £635.6 million).

10. Property, plant and equipment

	2006	2005
	£m	£m
Net book value		
At 1st January	**0.4**	0.6
Additions	**0.2**	-
Disposals	**(0.2)**	(0.1)
Depreciation	**(0.1)**	(0.1)
At 31st December	**0.3**	0.4
At 31st December		
Cost	**1.2**	1.3
Accumulated depreciation	**(0.9)**	(0.9)
Net book value	**0.3**	0.4

11. Deferred tax liability

	Revaluation surplus £m	Capital allowances £m	Other £m	Total £m
At 1st January 2006	91.6	13.6	-	105.2
Adjustment to reserves in respect of deferred tax on share-based payments	-	-	(0.6)	(0.6)
Provided during the year in income statement	56.9	2.7	1.3	60.9
Acquired on acquisition of subsidiary	1.7	-	-	1.7
At 31st December 2006	**150.2**	**16.3**	**0.7**	**167.2**

Deferred tax on the revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment property portfolio as at 31st December 2006. The calculation takes account of indexation on the historic cost of the properties and any available capital losses to the extent that these are deductible.

12. Equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m
At 1st January 2006	2.6	155.1	2.3	446.2
Premium on issue of shares	-	1.0	-	-
Share-based payments expense transferred to reserves	-	-	0.9	-
Deferred tax in respect of share-based payments	-	-	0.6	-
Profit for the year	-	-	-	182.2
Dividends paid	-	-	-	(7.5)
At 31st December 2006	**2.6**	**156.1**	**3.8**	**620.9**

13. Dividend

	2006 £m	2005 £m
Final dividend of 9.725p (2005 - 8.90p) per ordinary share proposed and paid during the year relating to the previous year's results	**5.2**	4.8
Interim dividend of 4.225p (2005 - 3.925p) per ordinary share paid during the year	**2.3**	2.0
	7.5	6.8

A second interim dividend in respect of the current year's results of 10.525p (2005 final - 9.725p) per ordinary share, which totalled £5.6 million (2005 final - £5.2 million), was paid on 23rd February 2007. This dividend has not been accrued at the balance sheet date.

14. Net asset value per share

	Net assets £m	Number of shares '000	Net asset value per share p
At 31st December 2006	783.4	53,656	**1,460**
Adjustment for deferred tax on capital allowances	16.3	-	**30**
Adjustment for deferred tax on revaluation surplus	150.2	-	**280**
Adjustment for post tax fair value of derivative financial instruments	(0.1)	-	-
Adjusted	949.8	53,656	**1,770**
At 31st December 2005	606.2	53,472	1,134
Adjustment for deferred tax on capital allowances	13.6	-	26
Adjustment for deferred tax on revaluation surplus	91.6	-	171
Adjustment for post tax fair value of derivative financial instruments	2.2	-	4
Adjusted	713.6	53,472	1,335

In order to provide a figure used by equity analysts and investors, adjusted net assets exclude the deferred tax provided in respect of capital allowances claimed on the basis that it is unlikely that this liability will ever crystallise. The deferred tax on the revaluation surplus and the post tax fair value of derivative financial instruments are also excluded on the basis that these amounts are not relevant when considering the group as an ongoing business.

15. Total return

	2006	2005
	%	%
Total return	**33.6**	25.5

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

16. Gearing

Balance sheet gearing at 31st December 2006 is 44.7% (2005 - 50.1%). This is defined as net debt divided by net assets.

Profit and loss gearing for 2006 is 1.85 (2005 - 1.84). This is defined as recurring net property income less administrative expenses divided by net interest payable having reversed the reallocation of ground rent payable on leasehold properties to interest payable of £0.9 million (2005 - £1.3 million).

17. Post balance sheet event

The following acquisition took place after the balance sheet date and before the approval of these financial statements:

Name of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition £m
London Merchant Securities plc	Property investment	1st February 2007	100	965.6

17. Post balance sheet event (continued)

Cost of acquisition:

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

The cost of equity was satisfied by Derwent London plc issuing 46,910,232 ordinary shares at a price of £19.46 on 1st February 2007. This issue price consists of the nominal value of the ordinary shares of £0.05 and a share premium of £19.41.

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

Subject to completion of the verification exercise, net assets acquired at 1st February 2007 were:

	Book value of assets acquired £m	Fair value of assets acquired £m
Non-current assets		
Investment property	1,239.6	1,245.6
Property, plant and equipment	6.8	1.6
Investments	19.3	19.3
Derivative financial instruments	6.1	6.1
Deferred tax asset	15.2	15.2
Pension scheme surplus	1.4	1.4
	1,288.4	1,289.2
Current assets		
Trading property	48.3	62.5
Trade and other receivables	17.3	17.3
Cash and cash equivalents	13.9	13.9
	79.5	93.7
Total assets	1,367.9	1,382.9
Current liabilities		
Bank loans	(4.6)	(4.6)
Trade and other payables	(38.5)	(39.3)
	(43.1)	(43.9)
Non-current liabilities		
Financial liabilities	(482.2)	(512.4)
Deferred tax liability	(150.7)	(145.4)
Other	(4.6)	(6.8)
	(637.5)	(664.6)
Total liabilities	(680.6)	(708.5)
Net assets acquired	687.3	674.4
Goodwill on acquisition		291.2
Cost of acquisition		965.6

17. Post balance sheet event (continued)

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

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

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

In addition, the benefits arising from the acquired portfolio are specific to the group and, consequently, the fair value less costs to sell of the acquired business is unlikely to support the carrying amount of the goodwill associated with the acquisition.

Therefore, it is anticipated that an impairment charge will be recorded in 2007, which will be approximately equal to the carrying amount of goodwill that has arisen on the post balance sheet acquisition.

18. The financial information set out above does not constitute the company's statutory accounts for the years ended 31st December 2006 or 2005, but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies and those for 2006 will be delivered following the company's annual general meeting which will be held on 23rd May 2007. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under the Companies Act 1985, s237(2) or (3). The annual report and accounts will be posted to shareholders on 20th April 2007, and will also be available on the company's website, www.derwentlondon.com, from that date.