REPORT & ACCOUNTS 2015

DERWENT LONDON PLC

Cover image and this page:
White Collar Factory EC1

Derwent London plc, the largest central London-focused 'REIT,' owns and manages a £5.0 billion predominantly office portfolio located in 15 'villages' in London's West End and Tech Belt. Our experienced team creates long-term value through disciplined acquisitions at low capital values, asset recycling, active asset management, development and refurbishment with an emphasis on design, anticipating tenant and community requirements and delivering good value for money.

Our reversionary portfolio balances income growth and regeneration activity supported by a strong balance sheet, low leverage and flexible financing.

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Derwent London is one of London's most innovative office focused property regenerators and investors and is well known for its design-led philosophy and active asset management.

25.0%
EPRA earnings per share growth

21.6%
EPRA NAV per share growth

40 Chancery Lane WC2

AT A GLANCE

Derwent London is the largest real estate investment trust (REIT) specialising in central London.

OUR PORTFOLIO SIZE

6.2m sq ft[1]
Total area

£5.0bn
Market value

WHERE WE INVEST

- In **central London offices** and their ancillary spaces.
- Currently invested in **15 'villages'** chosen for their medium term **growth outlook**
  – **Fitzrovia**, our largest village, benefits from the major improvements to the **eastern end of Oxford Street W1**.
  – **Crossrail** is expected to have a major impact on opening in 2018. We have a significant concentration of properties close to **Farringdon** and **Tottenham Court Road** stations.
  – The **Tech Belt** has benefited from being attractive to the creative industries.

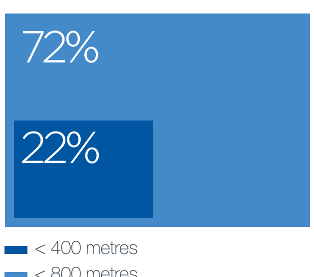
PORTFOLIO WEIGHTINGS

39%
Located in Tech Belt

36%
Located in Fitzrovia

25%
Other

DISTANCE FROM A CROSSRAIL STATION



[1] Includes space under development.

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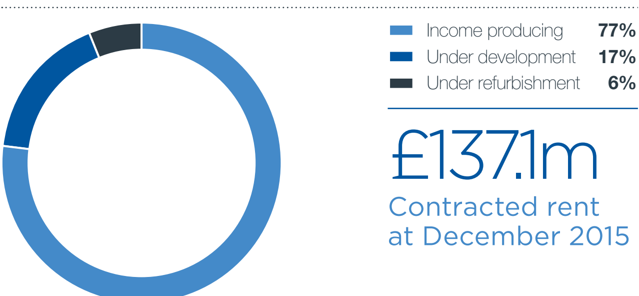
AN INCOME FOCUSED REGENERATION BUSINESS



£137.1m
Contracted rent at December 2015

Derwent London has a total return model generating value through **asset management** and **regeneration** with income at its core. The current income upside is reflected in our potential **reversion** (below).

- **Low existing rental levels**
  – Our average topped-up central London office rent is £41.04 per sq ft.
- **Asset management**
  – **Opportunities for growth** through reviews, lease restructuring and new lettings.
- **Regeneration**
  – We were regenerating 23% of the portfolio at 31 December 2015.
- **Potential reversion**
  – CBRE estimated our reversion as £141.0m at 31 December 2015 after total additional costs of £569m.

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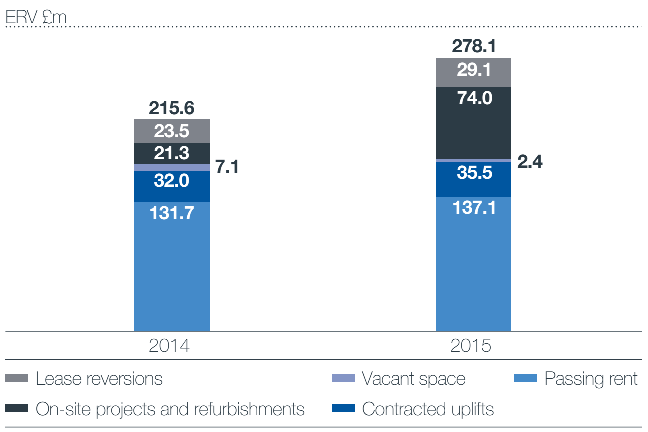

DISTINCTIVELY DERWENT

YIELD AND VACANCY RATE

3.1%
EPRA net initial yield
2014: 3.4%

3.8%
EPRA 'topped-up' net initial yield
2014: 4.0%

4.5%
True equivalent yield
2014: 4.7%

1.3%
EPRA vacancy rate
2014: 4.1%

OUR SUSTAINABLE APPROACH

- Design and deliver buildings responsibly
- Manage our assets responsibly
- Create value in the community
- Engage with and develop our employees

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OUR STRATEGIC OBJECTIVES

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

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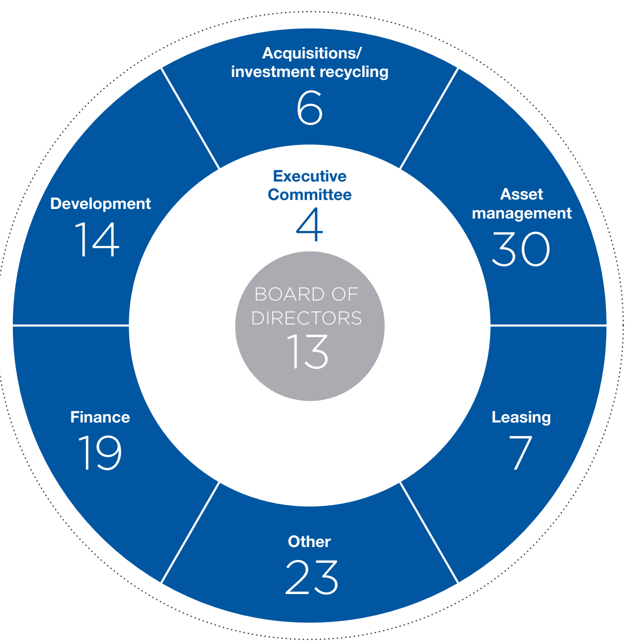
OUR TEAM

- Experienced management has created a culture of diligence, creativity and teamwork
- Specialist teams work collaboratively to deliver our strategies



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AT A GLANCE – FINANCIAL HIGHLIGHTS

In 2015 the Group generated a strong combination of NAV and earnings growth and further strengthened its financial position.

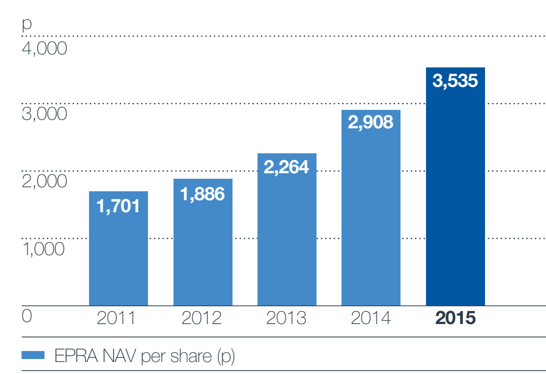
STRONG FINANCIAL PERFORMANCE

NAV per share

The revaluation surplus generated by an **increase in property values** and a **strong operating performance** were the main contributors to the increase in net asset value per share.

21.6%
Increase in EPRA NAV per share

£650m
Revaluation surplus

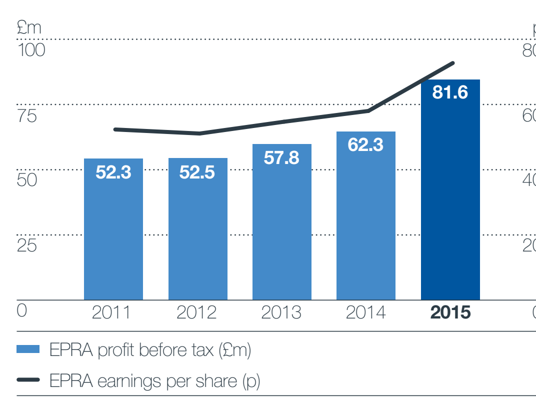


Earnings

A **9% increase in net property income** and an **18% fall in finance costs** have driven the increase in EPRA profit before tax (PBT) and EPRA earnings per share (EPS).

31%
Increase in EPRA PBT

25%
Increase in EPRA EPS



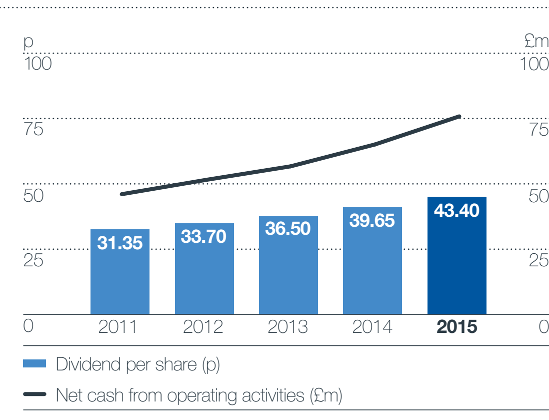
Returns

The Group's strong performance meant that the benchmarks on its **total return (TR)** and **total property return (TPR)** KPIs and **total shareholder return (TSR)** key metric were exceeded.

The **increase in earnings** and a **16% increase in net cash from operating activities** have enabled us to continue with our progressive dividend policy.

	TR %	TPR %	TSR %
Derwent London	23.0	21.2	24.5
Benchmark[1]	18.7	13.8	11.4

[1] Measuring our performance (page 32) explains the benchmarks for the annual TR, three-year rolling TPR and annual TSR shown here.



FINANCIAL POSITION STRENGTHENED

	2015		2014
LTV ratio	17.8%	↓	24.0%
NAV gearing	22.8%	↓	32.9%

The combination of **financing activity**, including the early conversion of the 2016 convertible bonds, and the **increase in property values** have further reduced the NAV gearing and LTV ratio.

	2015		2014
Interest cover ratio	362%	↑	286%
Weighted average interest rate – cash	3.68%	↓	3.78%
Weighted average interest rate – IFRS	3.93%	↓	4.22%

The **increase in income** and **fall in interest costs** have caused net ICR to increase.

	2015		2014
Net debt	£911.7m	↓	£1,013.3m
Undrawn facilities and cash	£269m	↓	£336m
Unencumbered assets	£3,709m	↑	£2,718m
Average tenor of debt	7.3 years	↑	6.6 years

Refinancing with more **unsecured debt** has increased unencumbered properties and extended our average debt tenor.

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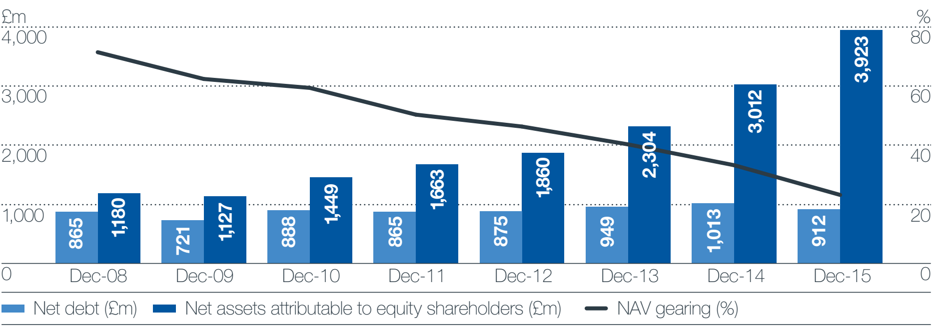
Debt, net assets and gearing



YEAR IN REVIEW

2015 was a significant year for Derwent London: it was a record year for lettings, we acquired two substantial opportunities in the Tech Belt, we progressed our developments, we supported local communities, we strengthened our finances and our business and developments won a number of awards. Some of the year's highlights are shown below.

Turnmill EC1

The Copyright Building W1

Angel Square EC1

Q1

Completed Turnmill EC1
In January we handed over 58,200 sq ft offices to Publicis Groupe at Turnmill, 63 Clerkenwell Road EC1. We have since let the 12,300 sq ft ground floor to two restaurants: Albion and Jason Atherton. Since completion the property has won a number of awards.

Conversion of £175m 2.75% convertible 2016
After we called for early redemption in January 2015, convertible bond holders opted to convert the 2016 convertible bonds leading to the issue of 7.9m new shares, thereby significantly reducing our LTV ratio.

Property swap for 20 Farringdon Road EC1
In February we acquired this prominent and substantial building in Clerkenwell opposite the future Farringdon Crossrail station. In return we sold two assets and formed a joint venture on a third. Total transaction size £207m.

Started our next major scheme
In February we started site clearance for The Copyright Building, 30 Berners Street W1. The development comprises 87,150 sq ft offices and 20,000 sq ft retail, and is due for completion in H2 2017.

Q2

Letting success at Angel Square EC1
In March the leases on the majority of the building acquired in November 2014 expired. We quickly re-let 57,600 sq ft to Expedia, who already occupy our Angel Building opposite, and 40,700 sq ft to The Office Group.

Supporting our communities
This is the third year of Derwent London's Fitzrovia Community Fund where we have increased our commitment to £400,000 and extended its time span to 2018.

Completion of Tottenham Court Walk W1
We completed redeveloping the Tottenham Court Road retail frontage with the introduction of a broad range of retail and restaurant users.

£400,000
Committed to our Fitzrovia community fund

523,800 SQ FT
Significant letting success in 2015

MAJOR ADDITIONS

20 Farringdon Road EC1
The White Chapel Building E1

DEVELOPMENT COMPLETIONS

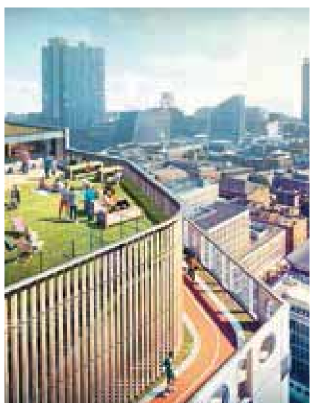
Turnmill EC1
Tottenham Court Walk W1
40 Chancery Lane WC2
73 Charlotte Street W1

DEVELOPMENTS ON-SITE

White Collar Factory EC1
The Copyright Building W1
80 Charlotte Street W1

1 Oxford Street W1

White Collar Factory EC1



Q3

Progressing the pipeline
In July we completed the development of 40 Chancery Lane WC2, pre-let to Publicis. In the same month we agreed terms whereby we can re-acquire the site of 1 Oxford Street W1 for a 275,000 sq ft office, retail and theatre development over the entrance to Tottenham Court Road Crossrail station.

Successful refinancing
In July we replaced a £90m secured facility with a £75m unsecured facility. Unsecured debt now represents over two thirds of total debt, which has increased our financial flexibility.

First lettings at White Collar Factory
In July the Group announced its first lettings at White Collar Factory EC1. The property is now 38% let to occupiers Adobe, AKT II (structural engineers), BGL Group (financial services) and The Office Group.

Maintaining high reporting standards
In September we were awarded EPRA gold for both our 2014 Annual Report and Sustainability Report for the third consecutive year.

Davidson Building WC2

Q4

Selling assets to re-invest in better opportunities
We sold the Davidson Building, Covent Garden WC2 and Portobello Dock W10 for £100m at a 30.9% premium to December 2014 book values.

Receiving recognition
In December 2015 we were voted third best company overall in the Management Today Awards and, for the sixth successive year, first in our sector.

Crystallising value
In December Wedge House SE1 was sold for £33.0m. This follows the receipt of planning for 110,000 sq ft hotel and offices earlier in the year.

Acquisition of major Whitechapel opportunity
We acquired a substantial property in December for £139.3m. We were able to commence a nine month refurbishment immediately.

£277m
Sales in 2015

£246m
Acquisitions in 2015

Link to business model

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

CHAIRMAN'S STATEMENT

During the year the London office market saw strong demand both from occupiers and investors. Derwent London made excellent progress highlighted by our growth in NAV and recurring earnings.

ROBERT RAYNE
CHAIRMAN

Overview

Derwent London made excellent progress in 2015. A highlight of the Group's performance was the 21.6% increase in our EPRA diluted NAV to 3,535p per share driven by the combination of rental value growth, development surpluses, asset management activity and yield tightening. There was also a particularly strong rise in EPRA recurring earnings which increased by 25.0% to 71.34p per share, the product of our substantial letting progress in recent years and lower interest costs.

As a result of this growing income stream, the Board has recommended raising the final dividend by 10.0% to 30.80p per share to make the full year's dividend 43.40p, an increase of 9.5% for the year. At this level the total dividend for 2015 is 1.6 times covered by recurring earnings. Our average dividend growth in the eight years since we converted to a REIT has been 8.6% pa.

During the year the London office market saw strong demand both from occupiers and investors. In what proved a record year for the Group, we let 523,800 sq ft in 79 transactions capturing £27.1m pa of rental income. On average these lettings were 10.8% above December 2014 Estimated Rental Values (ERV) and, by income, 44% were pre-lets. Buoyant investment demand enabled us to make £247.8m of investment property disposals at an average surplus of 18.4% to our December 2014 book values. Despite the competitive market conditions the Group was also able to acquire two major properties in the Tech Belt for £232.0m, and we invested £116.4m of capital expenditure in our projects. After a year of significant refinancing activity, including the early conversion to equity of the first of our two convertible bonds, we have strengthened our financial position with enhanced interest cover of 3.62x and the LTV ratio being reduced to 17.8%.

"Operationally 2016 has started well for us. We have achieved £9.2m of new lettings and raised additional long-term finance."

As long-term investors in central London, it is important that our activities benefit the neighbourhoods and local environments in which we invest. Last year we extended our commitment to the Group's Community Investment Fund, which will now cover the Tech Belt as well as Fitzrovia. Our Sustainability Report, published simultaneously with the Annual Report, gives more detail of the Group's activities. Brief highlights include improved resource efficiency with reductions in carbon generation and energy use. We continue to record high ratings from GRESB, CDP and EPRA, and are a member of FTSE4good. Looking forward, to enhance the transparency of our sustainability and corporate responsibility, we will be following Global Reporting Initiative guidelines from 2016 onwards.

This year's results provide further testimony to the success of our strategy and culture. The Group has again been recognised in the Management Today awards for 'Britain's Most Admired Companies'. In this annual survey we were ranked third across all UK companies, and first in the property sector for the sixth successive year. It is also gratifying to know that in a recent non-attributable staff survey, of the 96% who responded, all stated that they were proud to work for the Group. Once again I would like to thank them as well as our other stakeholders and advisers.

The Board

Last year we continued to refresh the Board's composition. June de Moller and Robert Farnes retired and we would like to thank them for their insight and sound judgement over a long period. In their place we are delighted to welcome Claudia Arney and Cilla Snowball, who bring with them extensive business, advertising, marketing, media and technology experience.

Outlook

The current year has started with major falls in global stock markets mainly based on concerns regarding global economic growth. In addition, the UK is facing an EU referendum in June, the result of which will either confirm the existing situation or extend the period of uncertainty as the ramifications of leaving the EU are worked out. It is too early to tell what impact this may have on the London property market, but a protracted period of uncertainty is likely to reduce business confidence.

UK economic growth appears to be moderating and, as a global city, London is not insulated from external risks, but the central London office market starts the year in a strong position with good demand and low vacancy rates. If current market conditions persist we estimate rental value growth across our portfolio of 5-8% and yields to remain firm in 2016. We expect the strongest rental growth will be at the lower end of our £45-80 per sq ft mid-market range and, with an average ERV on our central London office portfolio of only £51 per sq ft, the Group is well placed to benefit.

Operationally 2016 has started well for us. In particular we have achieved £9.2m net of new lettings thereby considerably de-risking our immediate development pipeline, and raised additional long-term finance. Together with the strong occupier interest being shown in our schemes, this enables the Group to continue its development programme confident in its resilience to potential market turbulence and well positioned to take advantage of opportunities that may arise.

ROBERT RAYNE
CHAIRMAN

25 FEBRUARY 2016

LONDON’S APPEAL

London’s success as a global city has led to population and employment growth and a broad based economy. This has produced increased demand for office space from a wide range of established and new occupiers.

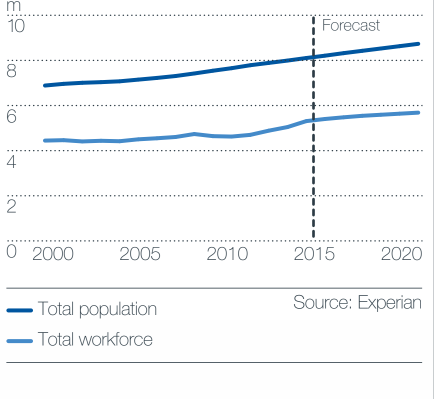
DERWENT LONDON BENEFITS AS A MAJOR PROVIDER OF DESIGN-LED VALUE FOR MONEY OFFICE SPACE, EITHER FROM MANAGING ITS EXISTING PORTFOLIO, THE REGENERATION OF TIRED SPACES, OR THE DEVELOPMENT OF EMERGING BUSINESS LOCATIONS.

London’s population and workforce
London’s population totals around 8.6m people and is ethnically diverse. It is expected to grow to 10m by 2030.

The workforce totalled 5.7m in 2015 which is 0.7m more jobs than at the previous 2008 peak.

It is a leading global centre for talent and high skills employment. 1.5m Londoners work in knowledge-based sectors, 47% of the combined total of the five top European cities.[1]

Number of people



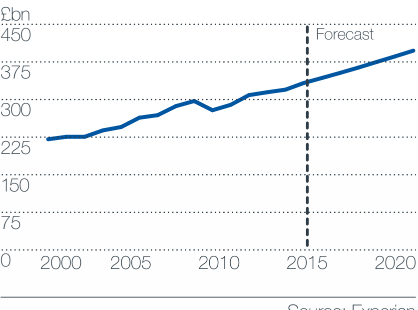
Source: Experian

Total population
Total workforce

London’s economy
London’s gross value added (GVA) increased 19.4% in the five years to 2014, and is expected to continue to grow over the following three years.

It is the pre-eminent business capital in Europe benefiting from the wide understanding of the English language and its legal system. It also benefits from its time zone and is home to 40% of the European headquarters of the world’s top companies.[1] Oxford Economics estimates 200,000 people are employed in London’s tech sector and expect this to grow 22% by 2025.

GVA



Source: Experian

8 Fitzroy Street W1

Tea Building E1

Angel Building EC1

Education and cultural attractions

London has some of the best higher education facilities with 18 universities ranked among the best in the world. Imperial College and University College London rank joint second and fifth respectively.[2]

London boasts numerous attractions: four UNESCO world heritage sites, museums, theatres, opera houses and world-class retail. It was ranked the world's most popular tourist destination in 2015.[3] 18.8m visitors are expected to have visited and 700,000 people are employed in London's tourism industry.

[1] Deloitte 'London crowned business capital of Europe' 2014.
[2] QS World University Rankings 2015.
[3] Mastercard 2015.

"London is one of the world's leading international financial centres and home to a large pool of highly skilled international talent."

HSBC
15 FEBRUARY 2016

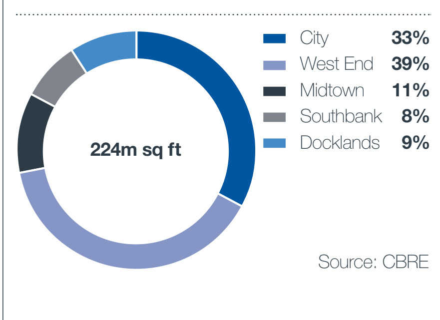
Major office market

London's office market totals 224m sq ft. The West End and the City represent 72% of the total. Around 75% of the West End office stock lies in conservation areas which limits development opportunities. This compares to c.33% in the City.

The City and Docklands markets hold the highest concentration of office towers and financial occupiers.

Our market share is 2.2%.

Central London office stock



Source: CBRE

Sources of office take-up

Professional and business services have long represented a high proportion of take-up. More recently creative industries' take-up has matched that of financial services.

The table below shows the sources of take-up in the last five years.

	%
Creative Industries	24
Banking and Finance	20
Business Services	18
Professional	12
Consumer Services and Leisure	9
Public Sector/Regulatory Bodies	7
Insurance	5
Manufacturing Industrial and Energy	5

Source: CBRE

Central London office cyclicality

The London office market has proven to be cyclical over time, and is influenced by a number of external and internal factors. 2015 was the sixth year of consecutive growth. More details of our views can be found under 'Our Market'.

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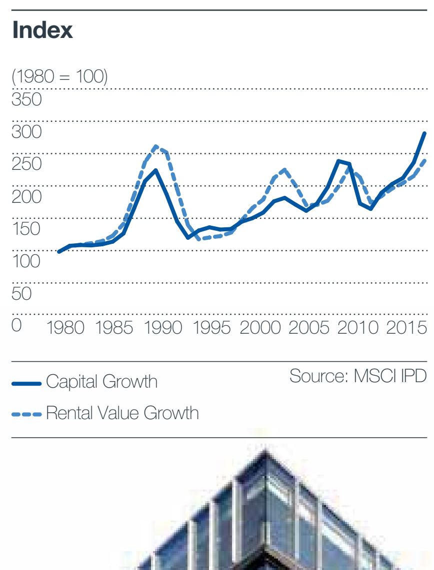


Source: MSCI IPD

Horseferry House SW1

Qube W1

OUR PORTFOLIO

Our portfolio comprises 6.2 million sq ft of properties valued at £5.0 billion. 98% of our properties are located in central London, grouped in 15 'villages,' each with its own individual identity. 66% can be found in the West End and 32% in the City Borders. The balance relates to properties and land held in Scotland on the northern outskirts of Glasgow.

100
Buildings

c.725
Tenants

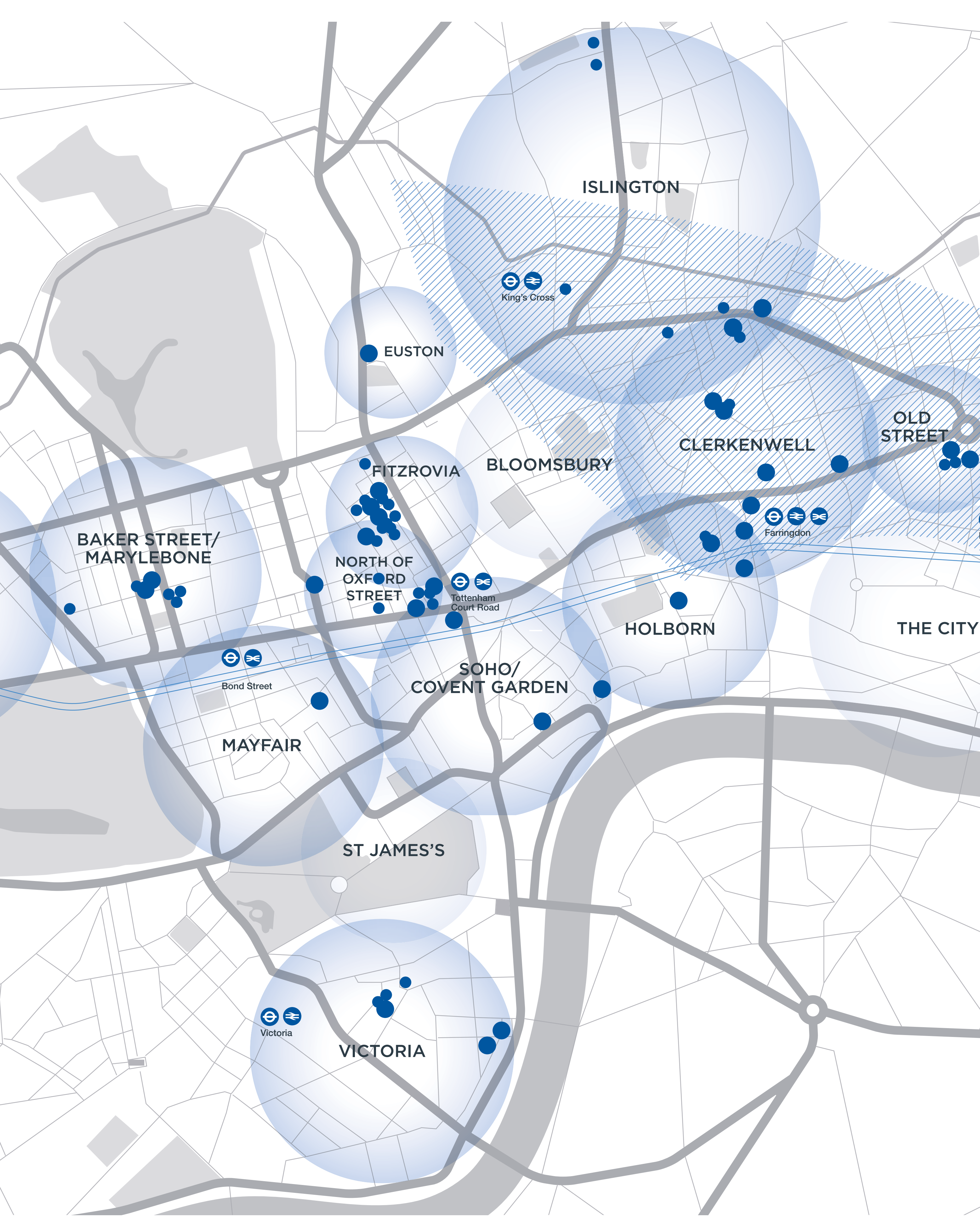
39%
Portfolio weighting in Tech Belt

£5.0bn
Valuation of the portfolio

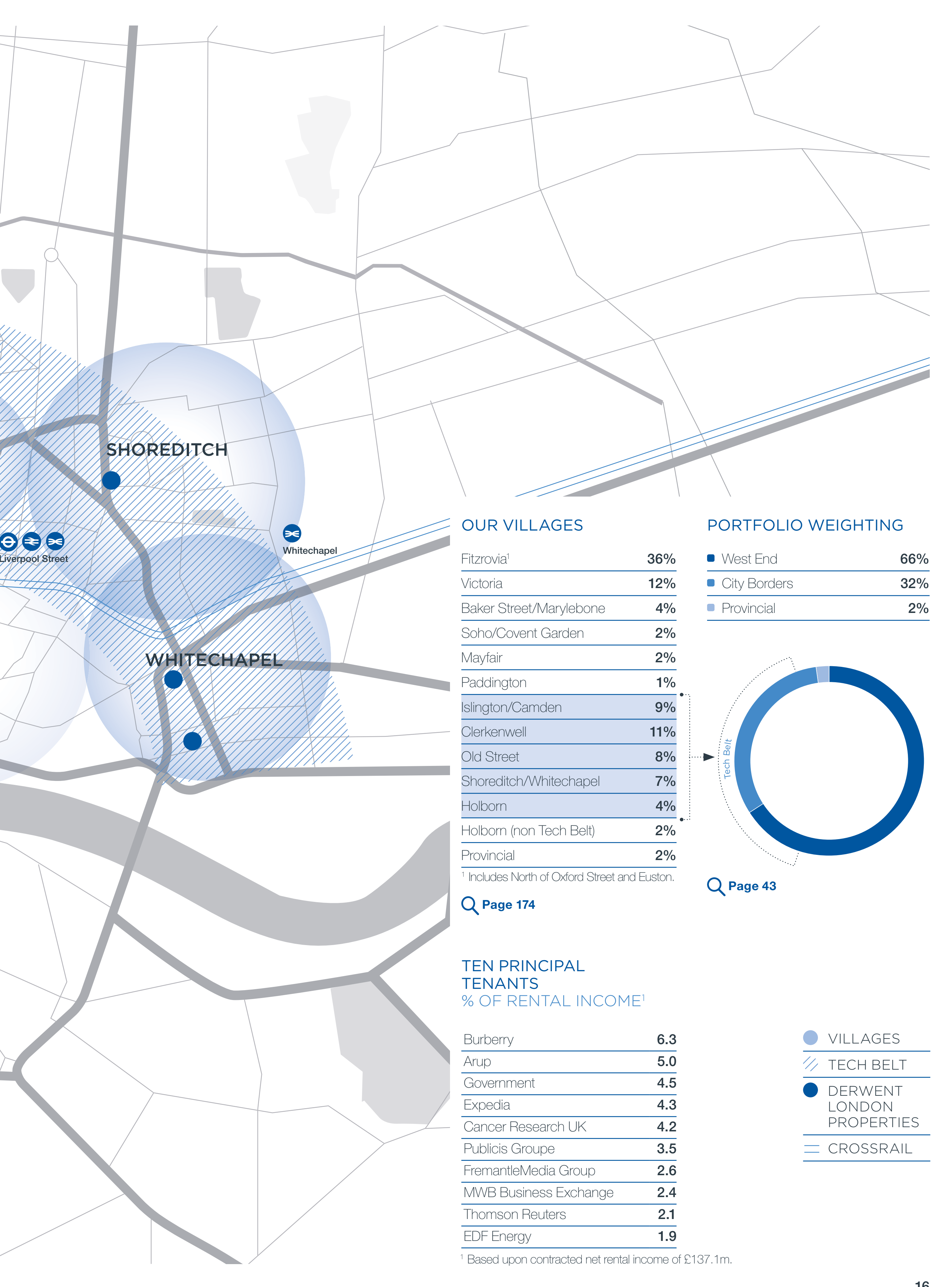
£137.1m
Contracted net rental income

£278.1m
Estimated rental value[1]

[1] After total additional costs of £569m.



ISLINGTON
King's Cross
EUSTON
FITZROVIA
BLOOMSBURY
CLERKENWELL
OLD
STREET
BAKER STREET/
MARYLEBONE
NORTH OF
OXFORD
STREET
Tottenham
Court Road
Farringdon
HOLBORN
THE CITY
Bond Street
SOHO/
COVENT GARDEN
MAYFAIR
ST JAMES'S
Victoria
VICTORIA



OUR VILLAGES

Fitzrovia[1]	36%
Victoria	12%
Baker Street/Marylebone	4%
Soho/Covent Garden	2%
Mayfair	2%
Paddington	1%
Islington/Camden	9%
Clerkenwell	11%
Old Street	8%
Shoreditch/Whitechapel	7%
Holborn	4%
Holborn (non Tech Belt)	2%
Provincial	2%

[1] Includes North of Oxford Street and Euston.

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PORTFOLIO WEIGHTING

West End	66%
City Borders	32%
Provincial	2%

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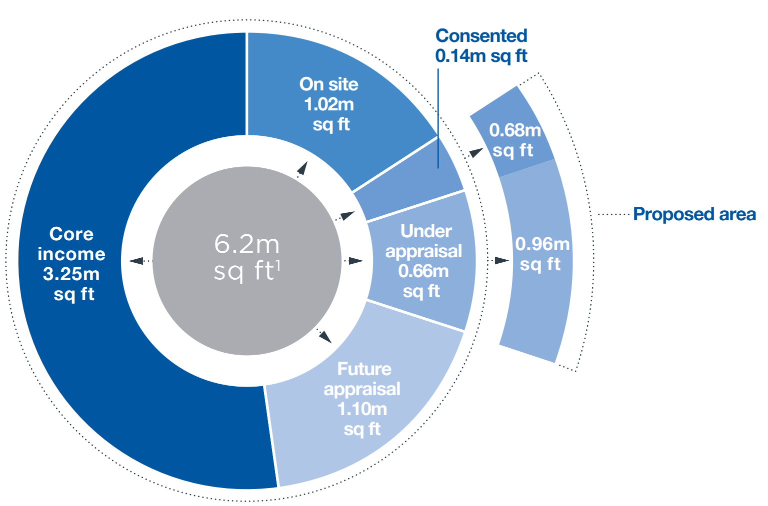
TEN PRINCIPAL TENANTS
% OF RENTAL INCOME[1]

Burberry	6.3
Arup	5.0
Government	4.5
Expedia	4.3
Cancer Research UK	4.2
Publicis Groupe	3.5
FremantleMedia Group	2.6
MWB Business Exchange	2.4
Thomson Reuters	2.1
EDF Energy	1.9

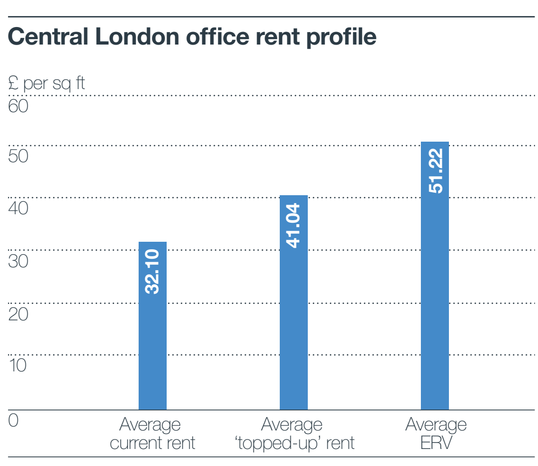
[1] Based upon contracted net rental income of £137.1m.

Portfolio composition
By area

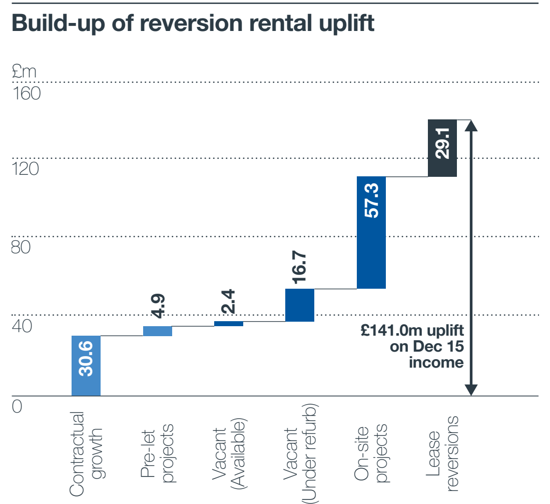


[1] Comprises 5.2m sq ft of existing buildings plus 1.0m sq ft of on-site developments.

Central London office rent profile

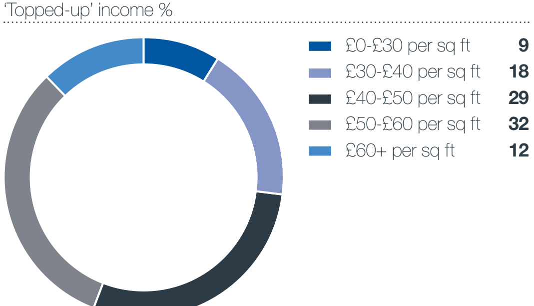


Build-up of reversion rental uplift



Central London office rent banding

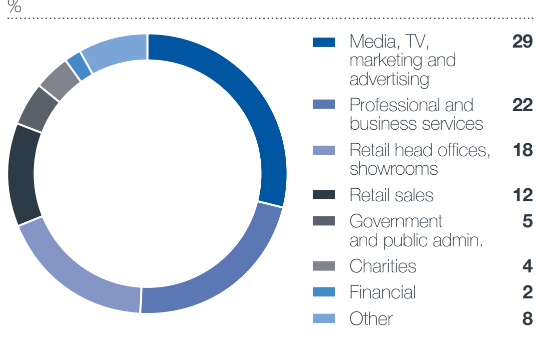
'Topped-up' income %



£0-£30 per sq ft	9
£30-£40 per sq ft	18
£40-£50 per sq ft	29
£50-£60 per sq ft	32
£60+ per sq ft	12

Profile of tenants' business sectors[1]

%



Media, TV, marketing and advertising	29
Professional and business services	22
Retail head offices, showrooms	18
Retail sales	12
Government and public admin.	5
Charities	4
Financial	2
Other	8

[1] Expressed as a percentage of annualised rental income of the whole portfolio.

OPEN HERE TO SEE
LONDON PORTFOLIO

CREATING VALUE THROUGH OUR BUSINESS MODEL AND STRATEGY

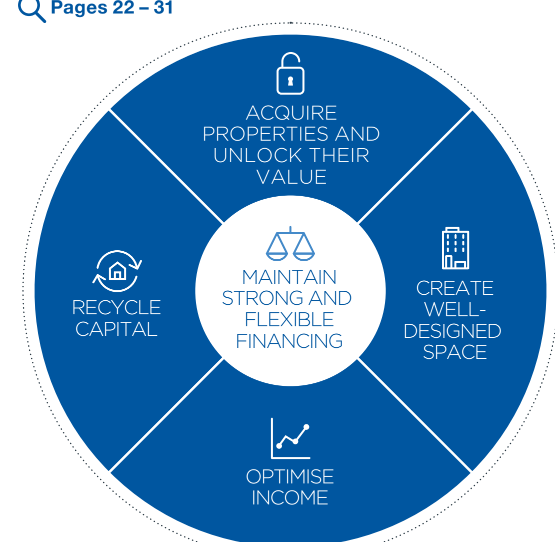
Our business model employs five strategic objectives in order to deliver the Group's principal objective.

OUR PRINCIPAL OBJECTIVE

TO DELIVER ABOVE AVERAGE LONG-TERM RETURNS FOR OUR SHAREHOLDERS AND LONG-TERM VALUE FOR OTHER STAKEHOLDERS

OUR STRATEGIC OBJECTIVES

Pages 22 – 31



OUR DISTINCTIVE APPROACH

PEOPLE AND CULTURE

Experienced management
The management team sets the culture of the business and, by using its experience of the property cycle, identifies the strategic priorities that will best deliver long-term value to stakeholders.

Dedicated teams
We have teams that specialise in our core activities of acquisitions/disposals, leasing, development, asset management and finance that work flexibly and collaboratively.

Culture
We have an open and collegiate culture that engenders creativity and innovation.

FOCUS

On central London
We concentrate on the markets we know best, and our knowledge helps us to find relative value and to identify up-and-coming areas. We have created a number of property clusters and substantial parts of our portfolio will benefit from the opening of Crossrail in 2018, or are located in the Tech Belt. We have avoided the core City office market which is dominated by financial services as we consider it to be more cyclical.

On good design
We look at each building individually and in the context of its location. We believe that good architecture helps create demand, and that it is important to be innovative and continually improve quality. These attributes have helped develop the Derwent brand.

On sustainability
We expect to have a positive impact on the areas surrounding our buildings and ensure that schemes are efficient, sustainable and not over specified.

RELATIONSHIPS

With third party professionals
Over many years we have built up good relationships with third party professionals, who share our passion and help us achieve our objectives.

With occupiers
An active relationship with our occupiers helps inform our views and can create new letting opportunities. We offer a wide range of office accommodation, rental levels and lease structures.

With communities
We work closely with local communities to ensure that our actions respond to their needs and expectations, and benefit the local environment.

With investors
We work hard to maintain good communications with our shareholders and funders.

MEASURING OUR PRINCIPAL OBJECTIVE

Our success in achieving this is measured by total shareholder return (TSR) and total return (TR).

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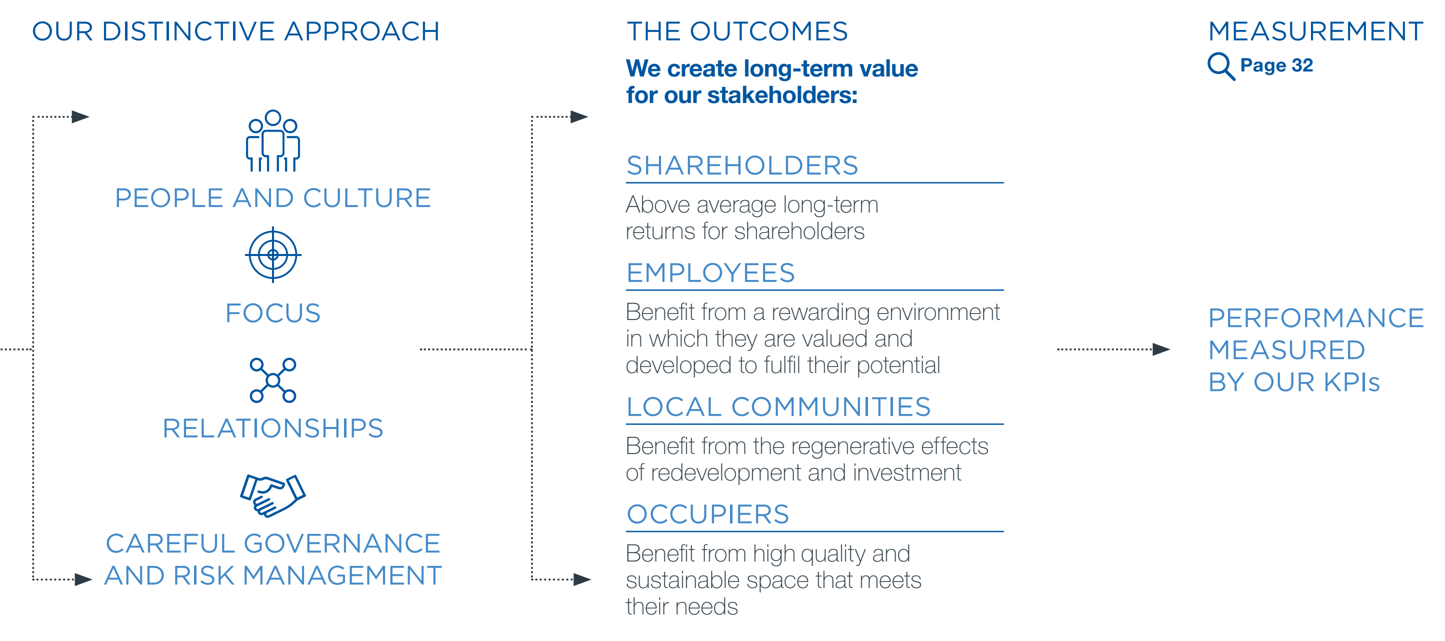
	Derwent London	Benchmark	Outperformance
TSR	24.5%	11.4%	13.1%
TR	23.0%	18.7%	4.3%

Page 20 for more on delivery of our strategy



CAREFUL GOVERNANCE AND RISK MANAGEMENT

Property cycle
For REITs, market conditions naturally change as a result of the property cycle. We aim to increase our development risk and activity while reducing financial leverage into a rising property market. Ideally, our lowest leverage is near the peak and our maximum leverage near the floor. History shows that this is hard to get absolutely right and so we continually monitor the market, particularly after a long period of growth, to ensure that our strategy is consistent with our view of the cycle.

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

Long-term perspective
From its very origins Derwent London has had a vision to become a significant and active London landlord. This reinforces our commitment to quality, allows us to look beyond initial returns for long-term gains, and to build good relationships with occupiers, communities and local authorities.

Governance
The Group's attitude to good governance reflects its culture which is shaped by the Board. Its approach to risk management revolves around its risk register, which reflects the Group's risk appetite statement.

DELIVERY OF OUR STRATEGY

We consider our achievements, measure our performance and identify risks in the light of our strategic objectives.

OUR STRATEGIC OBJECTIVES	■ PRIORITIES AND ▲ ACHIEVEMENTS FOR 2015
ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE	Page 22
Buy at low capital values in improving London villages, capitalising on our detailed understanding of London Add to our pipeline of future opportunities and maintain that proportion of our portfolio at around 50%	■ Focus on acquisitions that meet our strategic criteria ▲ Acquired two major properties in the Tech Belt for £232m, at an average cost of £545 per sq ft
CREATE WELL-DESIGNED SPACE	Page 24
Use top design teams to create attractive, adaptable and modern offices whilst avoiding over-specification Incorporate features in our developments to reduce the environmental impact and increase their appeal to tenants Invest in public realm to provide desirable spaces for occupiers and local communities	■ Complete Turnmill EC1, 40 Chancery Lane WC2, Tottenham Court Walk W1 and 73 Charlotte Street W1 ■ Commence The Copyright Building W1 and 80 Charlotte Street W1 ■ Submit planning application for Wedge House SE1 ▲ All priorities were achieved and 97% of the completed space has been let or sold ▲ Wedge House was sold once planning permission was received
OPTIMISE INCOME	Page 26
Understand occupiers' needs by building strong relationships through regular dialogue Respond to occupiers' needs by varying terms of leases or by relocating them within the portfolio Ensure income growth by incorporating minimum rental uplifts in leases when appropriate	■ Let the recently completed office space at 1-2 Stephen Street W1 and the retail space at Tottenham Court Walk W1 ■ Monitor the portfolio for asset management opportunities ▲ Stephen Street offices fully let ▲ Eight of the nine retail units at Tottenham Court Walk let ▲ 2015 was a record letting year – £27.1m of new lettings
RECYCLE CAPITAL	Page 28
Regularly review the status and options for each property in the portfolio When market conditions are favourable dispose of assets where: ■ future growth is limited ■ they are non-core	■ Monitor portfolio for opportunities to recycle capital ■ Sell remaining residential units at Queens W2 and commence marketing units at The Corner House W1 ▲ Six major investment properties were sold for £247.8m – 18.4% above December 2014 book values ▲ Eight of the nine remaining units at Queens and seven of the nine at The Corner House were sold for £23.7m
MAINTAIN STRONG AND FLEXIBLE FINANCING	Page 30
Ensure sustainable interest cover Ensure appropriate level of gearing for market conditions and our development activity Provide protection from increases in interest rates Maintain good relationships with a broad spread of funding sources Extend loan durations when rates are attractive	■ Convert £175m 2.75% convertible bonds into equity ■ Monitor interest cover ■ Maintain balance between income generation and development activity ▲ All priorities were achieved ▲ At the year end the Group's interest cover was 362%; its LTV ratio was 17.8% and it had £262m of undrawn, available facilities ▲ Credit rating upgraded to BBB+

Total return and total shareholder return measure our performance across all our strategic objectives.

KPIs AND BUSINESS METRICS THAT MEASURE OUR PERFORMANCE	PRIORITIES FOR 2016	PRINCIPAL RISKS TO OUR STRATEGIC OBJECTIVES
Page 32		Page 72
▪ Total property return ▪ Capital return ▪ Gearing and available resources ▪ Reversionary percentage ▪ Development potential	▪ Continue to seek acquisitions that meet our strategic criteria ▪ Achieve planning on Monmouth House EC1 ▪ Complete The White Chapel Building E1 refurbishment	▪ Inconsistent strategy ▪ Inconsistent development programme ▪ Increase in property yields ▪ Reduced development returns ▪ Business interruption ▪ Contractor/sub-contractor default ▪ Shortage of key staff
▪ Capital return ▪ Tenant receipts ▪ Tenant retention ▪ Development potential ▪ Void management ▪ BREEAM ratings ▪ Energy performance certificates	▪ Complete White Collar Factory EC1 ▪ Continue construction at The Copyright Building W1 and 80 Charlotte Street W1 ▪ Commence Brunel Building W2	▪ Reduced development returns ▪ Inconsistent development programme ▪ Business interruption ▪ Regulatory non-compliance ▪ Contractor/sub-contractor default ▪ Shortage of key staff ▪ Reputational damage
▪ Total property return ▪ Capital return ▪ Interest cover ratio ▪ Void management ▪ Tenant receipts ▪ Tenant retention	▪ Let available space at White Collar Factory EC1, The White Chapel Building E1 and 20 Farringdon Road EC1 ▪ Continuously monitor portfolio for further asset management initiatives	▪ Inconsistent strategy ▪ Reputational damage ▪ Business interruption ▪ Regulatory non-compliance ▪ Shortage of key staff
▪ Interest cover ratio ▪ Development potential ▪ Gearing and available resources	▪ Monitor portfolio for further opportunities to recycle capital	▪ Inconsistent strategy ▪ Business interruption ▪ Increase in property yields ▪ Shortage of key staff
▪ Interest cover ratio ▪ Gearing and available resources	▪ Maintain balance between income generation and development activity ▪ Put in place additional long-term fixed rate debt ▪ Maintain good interest cover	▪ Inconsistent strategy ▪ Business interruption ▪ Increase in property yields ▪ Regulatory non-compliance ▪ Reputational damage ▪ Reduced development returns ▪ Shortage of key staff

20 FARRINGDON ROAD EC1
170,600 SQ FT

ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE

We specialise in buying income-producing properties let off low rents with low capital values in improving locations. Typically these acquisitions both increase our income base and supplement the supply of future opportunities. This ensures the portfolio retains above average growth potential from opportunities for active management.

Unlocking value may come from growing rental income, refurbishment or asset management, adding area or increasing the value per sq ft. Each building is considered individually and, because the pipeline is income producing, we have time to find the optimum solution in each case.

Some examples are given on the next page.

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THE WHITE CHAPEL BUILDING E1
270,000 SQ FT

MAJOR ACQUISITIONS OFFER IMMEDIATE AND LONG TERM POTENTIAL

We acquired two substantial properties in 2015. The first was the long lease of 20 Farringdon Road, Clerkenwell EC1, comprising a 170,600 sq ft building, for £545 per sq ft, and let at an average rent of £27 per sq ft. We are currently refurbishing 88,000 sq ft, and have pre-let 33,500 sq ft at £45 per sq ft. At the same time we are working up plans for a more significant remodelling of the building after 2020, by which time the new Farringdon Crossrail station opposite will be open.

At the end of the year we acquired Aldgate Union, Whitechapel E1 for £139m, also around £545 per sq ft. The fact that it was vacant enabled us to immediately commence an £18m light touch refurbishment. The property has been rebranded The White Chapel Building and will be repositioned from back office space to Tech Belt space. The 200,000 sq ft Phase 1 of the refurbishment is scheduled for completion in the second half of 2016. We are currently seeing strong demand for this kind of space in the Tech Belt area.

RAISING INCOME ON ANGEL SQUARE EC1

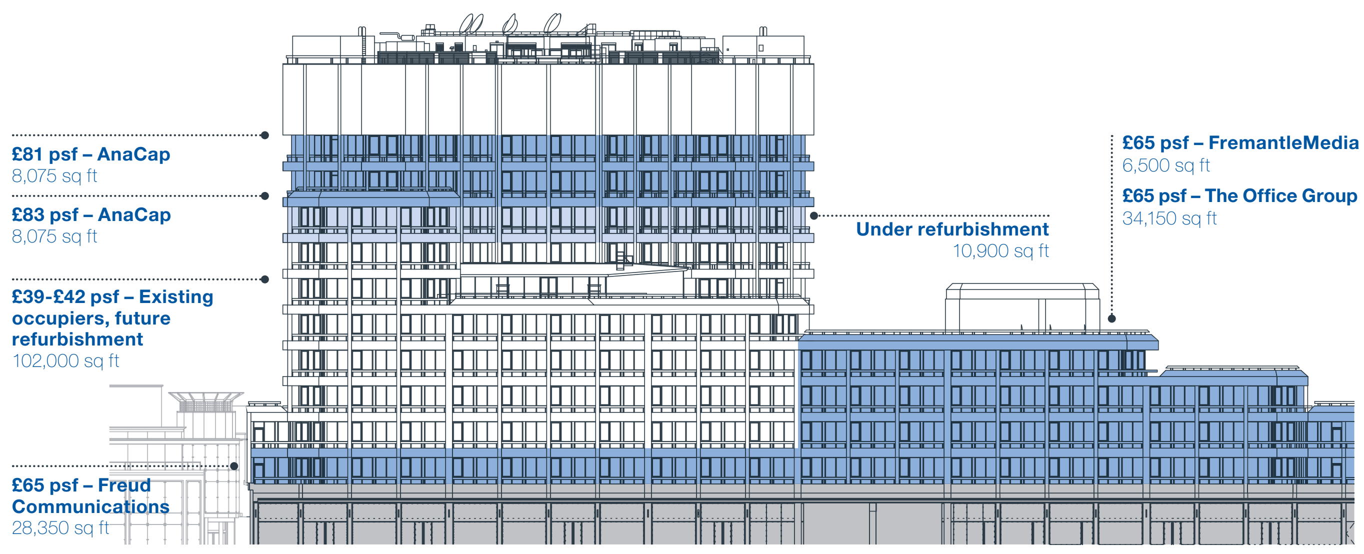
We acquired this 126,900 sq ft property in November 2014 for £78.6m with an income of £2.4m pa (average rents £19 per sq ft). The majority of the space fell vacant in March 2015, which gave us the opportunity to raise the income by swiftly re-letting 98,300 sq ft to Expedia, who also occupy our Angel Building opposite, and The Office Group. We retained an occupier in 3,300 sq ft and have refurbished the remainder. The latter space is either pre-let or under offer and we have recently achieved a rent of £55 per sq ft. On full letting the income should double to £4.8m pa.

REGENERATING 1-2 STEPHEN STREET W1

Since acquisition five years ago we have refurbished over half the office space and completely remodelled and reclad the ground floor. This has improved the entrances and provided a new retail frontage on Tottenham Court Road and a more vibrant tenant mix. During 2015 we achieved office rents ranging from £65 to £82.50 per sq ft. We acquired the property in 2010 for an average price of £582 per sq ft. We have since spent c.£175 per sq ft on refurbishment and the property was valued in December 2015 at £1,280 per sq ft. This building is expected to be a major beneficiary from the opening of the nearby Crossrail station in 2018, and there remains 102,000 sq ft still to refurbish.

ANGEL SQUARE EC1
126,900 SQ FT

1-2 STEPHEN STREET W1
267,400 SQ FT



ANGEL BUILDING EC1
STILL WINNING AWARDS
IN 2015

CREATE WELL-DESIGNED SPACE

Derwent London creates attractive and adaptable offices avoiding over-specification. We work with leading architects to design fresh and modern spaces, building features into our buildings to reduce their environmental impact and increase their appeal. We invest in public realm to provide desirable spaces for occupiers and communities alike.

"We believe that creating the right space can help improve neighbourhoods, as well as attracting new businesses to the location."

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OUR APPROACH

Good design lies at the centre of our regeneration activities, along with knowing our markets and our occupiers' requirements. We believe one way to attract a tenant to an improving area is to provide an exceptional building at a reasonable price. Often that price sets new levels for the area.

We tailor our approach to each building and collaborate with leading architects and other external professional teams. These are frequently longstanding relationships but we take on new consultants where we are looking for a fresh approach. It is important that we learn from what our occupiers are telling us about our existing buildings, and that we remain innovative. The process is supported by the income from the existing property.

BUILDING LONGEVITY

Our loose-fit flexible spaces ensure that buildings remain in demand and are sustainable.

Five years ago we completed Angel Building, Islington EC1 which provided occupiers with fresh office space, a revised entrance, ground floor catering and business lounge, and accessible roof terraces. In addition we added three retail units at street level, which have been let to food operators. Its success was recognised with the BCO Test of Time award in 2015.

OUR OFFICE DESIGNS

The White Collar Factory EC1 development that features on this Annual Report's cover is a classic example of our approach. The office space design is the fruition of five years' research conducted by ourselves, AHMM (architects) and Arup (engineers). It was concluded that occupiers value flexibility and cost efficiency. One solution was to build space with above average 3.5 metre floor to ceiling heights. This provides occupiers with more volume and natural light, energy efficient temperature control incorporating the interaction of the larger areas, concrete core cooling in the ceilings and opening windows. None of these design features involve new technologies, but it is rare to see them combined in a modern London office scheme. To check our designs we tested them for ten months in a full scale 3,000 sq ft mock-up.

Our developments incorporate a variety of materials. In 2015 we used bespoke Danish made bricks for Turnmill EC1, and travertine sourced directly from a quarry in Italy for 40 Chancery Lane WC2. In both cases we sought the right finish for each building's context. White Collar Factory's main material is concrete using a shuttered effect on its external surfaces. This will provide a plain clean image, which complements its simple flexibility.

ADDING VIBRANCY

The White Collar Factory has other trademark characteristics where its space is shared with other occupiers and visitors. The 16-storey tower will have a striking double-height entrance with a communal café, a lower ground floor multi-use space (capable of being a conference centre), a roof top terrace and entertainment space and even a roof top running track. Behind the tower is Old Street Yard, a new public realm, which in turn will be surrounded by restaurants, low rise offices and nine apartments.

POSITIVE IMPACT ON OUR SURROUNDINGS

We completed the refurbishment of The Buckley Building EC1 in 2013, exploiting its industrial frame and corner position to create well-lit flexible office space. We also created a more imposing entrance, repositioning it to face Clerkenwell Green, and added a restaurant. This year, as part of our Community Strategy, we commissioned a survey to evaluate its impact on the neighbourhood. Amongst the report's findings is that the new occupiers had increased the revenues of local businesses by 6%.

WHITE COLLAR FACTORY EC1
LOWER GROUND FLOOR (CGI)

HOLDEN HOUSE W1
EXTENDING INCOME

OPTIMISE INCOME

"Strong levels of occupier demand have helped raise rental levels on our available space, and we are seeing good early interest in schemes not due for completion until 2019."

In December 2015 77% of our portfolio was income producing, made up of a combination of mature buildings on longer leases and properties with future potential let off shorter leases or ground rents. Low competitive rents and flexible terms on the latter encourage tenants to remain in occupation until we start on site.

The Group builds strong relationships with all its occupiers through regular dialogue so as to best understand their needs. Where appropriate we can offer flexibility either by altering lease terms or by relocation. In a significant number of recent leases we have also incorporated minimum rental uplifts thereby ensuring guaranteed future cash flow growth.

GREENCOAT AND GORDON HOUSE SW1
CONTINUING IMPROVEMENT

OUR OCCUPIERS ARE IMPORTANT STAKEHOLDERS

All our major multi-let properties have on-site building managers responsible for day-to-day contact with our occupiers. In addition our asset managers meet with occupiers regularly. Examples of other methods of contact include our recently updated Tenant Handbook and our regular Sustainability Newsletters.

MANAGEMENT CONTINUITY

We acquired Greencoat and Gordon House SW1 in 1995. These adjoining properties total 145,100 sq ft and are a demonstration of how we refresh and evolve our long-standing ownerships. Since acquisition we have substantially modernised the interior of this building raising rents from c.£10 per sq ft to c.£59 per sq ft. In 2014 we bought back the long lease on the basement space and have since been reconfiguring it to create 31,000 sq ft of lettable space.

MAINTAINING INCOME

Two recent examples of retaining high occupancy prior to development are at 55-65 North Wharf Road W2 and Holden House W1. The former was income producing until a few weeks before demolition was started in January 2016 to make way for the Brunel Building.

A number of leases expired in Holden House in 2014 representing approximately 25% of the lettable area. We have longer term regeneration plans for this property, so we conducted a modest refurbishment and re-let the space on five year terms which synchronises their expiry with the majority of leases on the property.

ENHANCING INCOME

Two of our three leases signed with The Office Group (TOG) in 2015 included a share of profits above a threshold level. The success of TOG's 2 Stephen Street W1 business is now expected to provide us with additional income of c.£240,000 in 2016, equivalent to £7 per sq ft of extra rent.

GIVING PROPERTIES A MAKEOVER

The reduced demand for car spaces has given us an opportunity to create higher value commercial space. The new retail units at Tottenham Court Walk W1 benefited from the conversion of car spaces into lower ground floor storage. In Middlesex House W1 international architects Make converted the car park into offices and occupied them in 2015.

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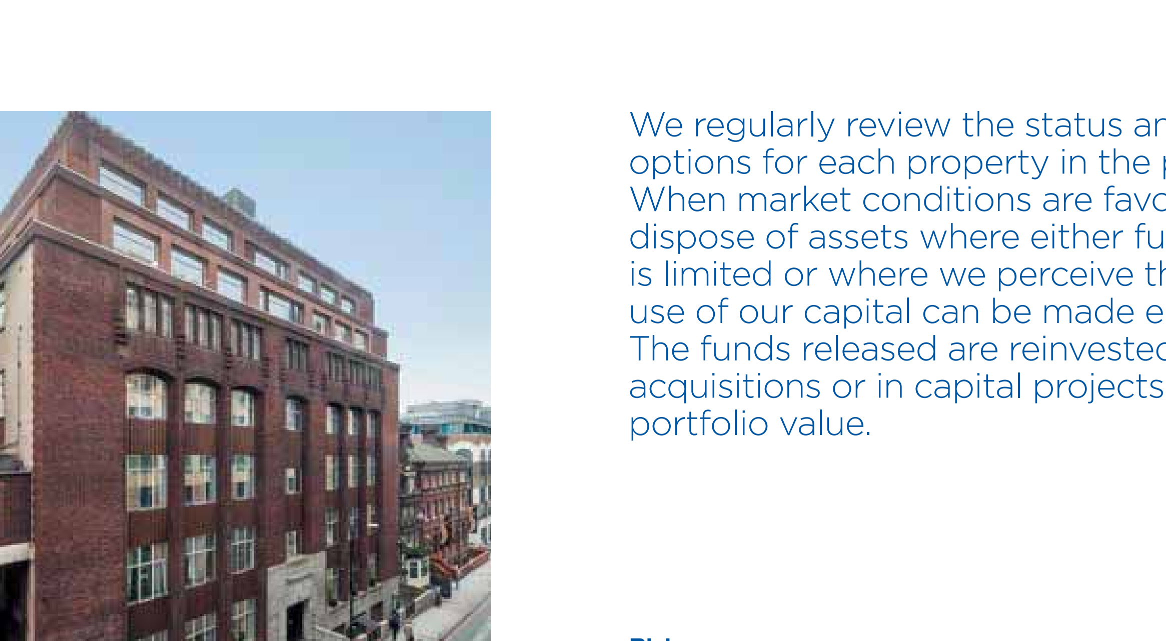
MIDDLESEX HOUSE W1
PREVIOUS CAR PARK SPACE

01 Before development
02 After development

"It is important that we actively look to dispose some of our mature assets to ensure that we maintain the balance between the income and redevelopment elements in our portfolio as projects are completed and let."

PORTOBELLO DOCK W10
SAW STRONG INVESTOR DEMAND

RECYCLE CAPITAL



We regularly review the status and options for each property in the portfolio. When market conditions are favourable we dispose of assets where either future growth is limited or where we perceive that better use of our capital can be made elsewhere. The funds released are reinvested in new acquisitions or in capital projects to grow portfolio value.

9 PRESCOT STREET E1
FORMATION OF JOINT VENTURE

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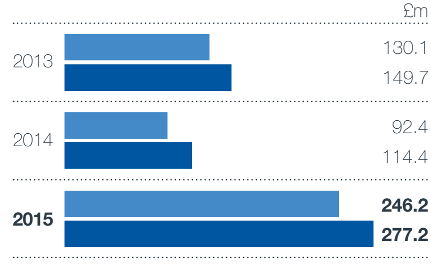
SELLING TO REDEPLOY CAPITAL ELSEWHERE



In February 2015 we sold two buildings and a half interest in a third as part of the property swap to acquire 20 Farringdon Road EC1. The properties sold: 22 Kingsway WC2 and Mark Square House EC2, offered less value-adding potential. We retained a 50% interest in 9 and 16 Prescot Street E1, where leases have been extended on half the building and half is being refurbished.

In November we sold the Davidson Building, Covent Garden WC2 where we had recently refurbished and re-let 56% of the space achieving new rental levels. In December we also sold Portobello Dock W10 which represented a relatively small asset in our portfolio. Together these sales achieved 14% above June 2015 book values.

REPOSITIONING WEDGE HOUSE SE1

At this tired 39,000 sq ft office building south of the River Thames, we had achieved consent for an 80,000 sq ft office development. During 2015 we teamed up with The Hoxton and submitted plans for a 110,000 sq ft mixed hotel and office scheme. The application was successful and we have since sold the site to the hotel operator. This transformation saw the Group secure a substantial capital profit of £15.3m in 2015 or 86% over the December 2014 value.

RESIDENTIAL DEVELOPMENT

In the last two years we have developed two small standalone residential schemes for sale. These projects at Queens W2 and The Corner House W1 have been implemented where residential values exceeded commercial ones, and, in the latter's case, allowed us to meet our residential obligations on larger developments. In 2015 we raised £24m from residential sales.

WEDGE HOUSE SE1 MIXED-USE REDEVELOPMENT

01

02

01 Existing building

02 CGI of development

WE WORK HARD TO MAINTAIN EXCELLENT RELATIONSHIPS WITH ALL OUR LENDERS

THE GROUP'S CREDIT RATING WAS RAISED BY STANDARD & POOR'S TO BBB+ IN APRIL 2015 HELPING US TO SOURCE FUNDING FROM THE CAPITAL MARKETS AT REDUCED COST

GROUP LTV RATIO REDUCED TO 17.8% IN DECEMBER 2015 FROM 24.0% IN DECEMBER 2014

MAIN FINANCING ACTIVITIES IN THE LAST YEAR

In January 2015, we called for early redemption of the £175m 2.75% convertible bonds 2016 which led to their conversion. This reduced debt and led to the issue of 7.88m new ordinary shares. Gearing was lowered and interest cover was substantially improved.

In July 2015, a new £75m revolving unsecured bank facility was arranged with Wells Fargo. Simultaneously, the £70m drawn from a secured £90m facility with the same lender was repaid and the old facility was cancelled thereby removing charges over £390m of property.

In December 2015, the Group's main £550m revolving bank facility was extended by 12 months to January 2021.

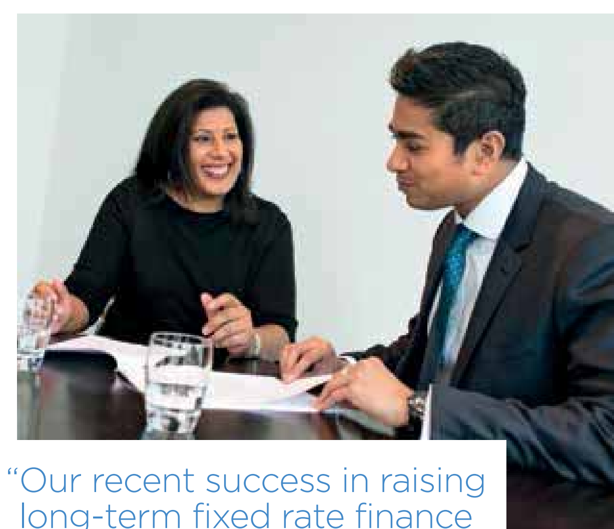
Several interest rate swaps were cancelled or re-couponed in 2015 at a cost of £4m. A forward start swap was also deferred by 12 months for £2.4m. These steps reduced our interest cost.

£105m of US private placement notes were agreed and signed with three new lenders in February 2016 for drawing in May 2016.

MAINTAIN STRONG AND FLEXIBLE FINANCING

Our financial strategy has low leverage at its heart with a focus on sustainable income growth and interest cover to balance the riskier value-adding aspects of our business model. We have diversified our sources of finance in recent years and moved to predominantly unsecured borrowings to preserve flexibility.

- Combination of unsecured revolving bank facilities and long-term fixed rate debt
  - revolving bank facilities provide flexibility
  - fixed rate debt ensures a relatively long average unexpired loan term
- 85% of borrowings were fixed rate or swapped at December 2015 to give protection against rising rates



"Our recent success in raising long-term fixed rate finance in uncertain global financial markets from a range of blue-chip institutions is a demonstration of the Group's creditworthiness."

GREENCOAT HOUSE SW1 RECEPTION

ADDED FINANCIAL FLEXIBILITY

We made our financing more flexible in 2015 by:

- Increasing our revolving bank facilities by £55m to £625m.
- Increasing total unencumbered properties to £3.7bn in December.

MAINLY UNSECURED BORROWINGS

Since 2011, we have gradually increased the proportion of Group borrowings that are unsecured (i.e. we have no assets pledged as security to the lender). This has also substantially increased the level of our unencumbered properties.

Unsecured debt and unencumbered properties

	2015	2014	2013	2012
Proportion of debt unsecured (%)	**68**	65	63	20
Unencumbered properties (£m)	**3,709**	2,718	2,144	624

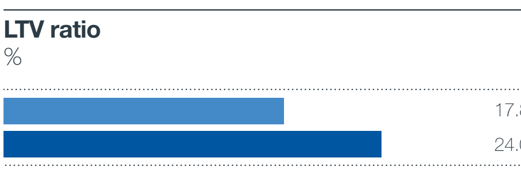
IMPROVED INTEREST COVER AND LOW LTV RATIO

Our annual budgeting process is supported by a five year plan to ensure we find the right balance between growing recurring earnings and investing in higher value-added capital projects. We aim to de-risk projects as we go by letting space prior to scheme completion or by fixing costs with contractors where this is economically viable, supported by low leverage and with a particular focus on interest cover.

Interest cover ratio (ICR)
%

2015 2014

LTV ratio
%



2015 2014

3.68%
Average interest rate of debt (cash basis)
Dec 2014: 3.78%

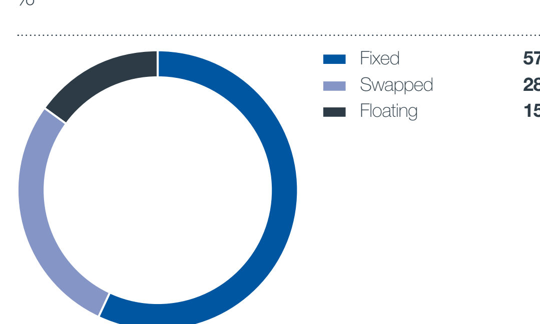
3.93%
Average interest rate of debt (IFRS basis)
Dec 2014: 4.22%

7.3 years
Weighted average unexpired term of borrowings
Dec 2014: 6.6 years

LOWERING THE AVERAGE COST AND LENGTHENING THE UNEXPIRED TERM OF OUR DEBT

We try to ensure that the cost of our debt is competitive while also ensuring the duration of our unexpired facilities provides headroom in relation to business planning, going concern and viability assessments for the business as a whole. Generally, longer term fixed rate debt is more expensive than short-term floating rate debt so we look to balance both elements.

Hedging profile
%



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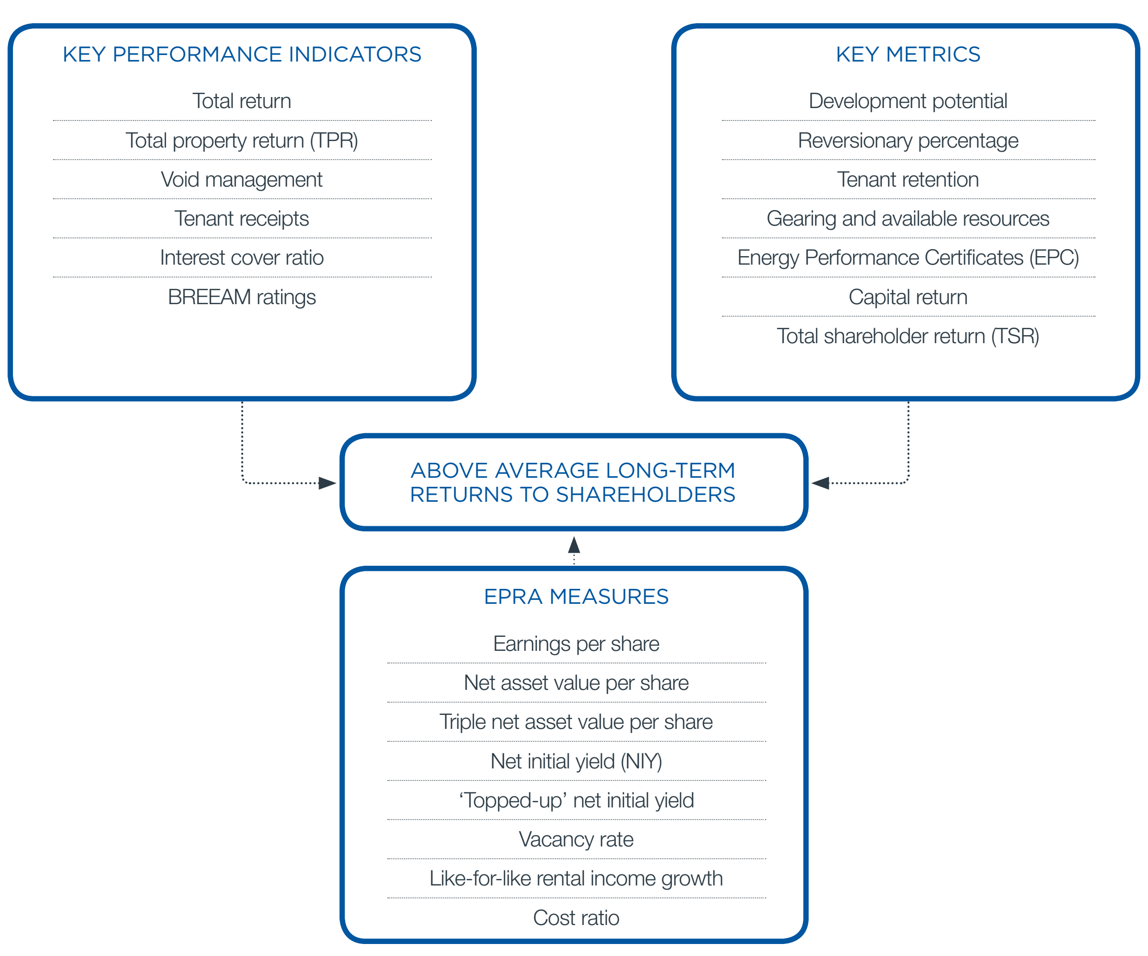
MEASURING OUR PERFORMANCE

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



We have established a set of Key Performance Indicators (KPIs) which are measured against relevant external and internal benchmarks. In addition to these KPIs, we also use additional metrics and various EPRA performance measures to monitor the performance of the business. For definitions please see pages 176 to 178.

Link to remuneration

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

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

Bonus scheme

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

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Long-term incentive plan

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

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Total return

Our total return, which reflects the combined effectiveness of all the strands of our strategy, equates to the combination of NAV growth plus dividends paid during the year. We aim to exceed our benchmark which is the average of other major real estate companies.

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Our performance

In 2015 our total return of 23.0% again comfortably exceeded our benchmark. Our cumulative performance over the past five years was 158% compared to the benchmark of 97%.

%	Derwent London	Weighted average of real estate companies
2011	17.4	10.9
2012	12.7	6.6
2013	21.9	15.1
2014	30.1	21.9
2015	**23.0**	**18.7**

Total property return (TPR)

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

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Our performance

We exceeded both of our IPD benchmarks again in 2015. Over the past five years we have exceeded the IPD Central London Offices Index and the IPD UK All Property Index by 15% and 62%, respectively.

Annual

%	Derwent London	IPD Central London Offices Index
2011	13.4	12.5
2012	11.6	8.8
2013	18.5	15.8
2014	25.1	23.5
2015	**19.9**	**19.7**

Three-year rolling

%	Derwent London	IPD UK All Property Index
2011	12.1	8.8
2012	15.4	8.6
2013	14.5	7.0
2014	18.4	10.4
2015	**21.2**	**13.8**

Strategic objective measured

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

MEASURING OUR PERFORMANCE
CONTINUED

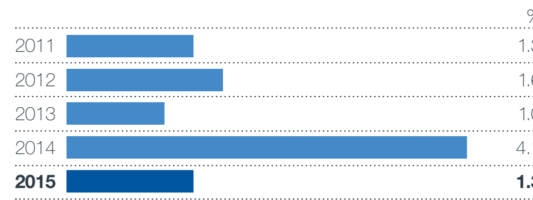
KEY PERFORMANCE INDICATORS CONTINUED

Void management

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

Page 46

Our performance
Due to our letting success over the past few years, the EPRA vacancy rate has remained consistently low and well below our maximum guideline of 10%.

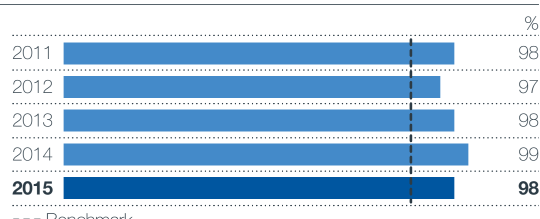


Tenant receipts

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

Page 46

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

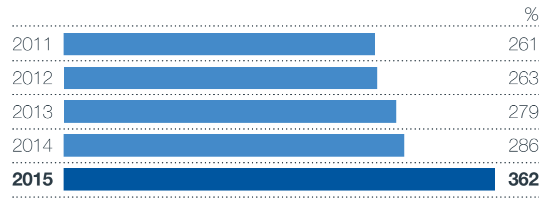


Interest cover ratio

We aim for our interest payable to be covered at least 1.5 times by net rents. The basis of calculation is similar to the covenant included in the loan documentation for our unsecured bank facilities. Please see note 39 for the calculation of this measure.

Page 58

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



BREEAM ratings

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

Page 66

Our performance
We are pleased that our completions in 2015 met our benchmark. We expect all our 2016 projects to maintain this high performance.

	Completion	Rating
Turnmill EC1	Q1 2015	Excellent
Tottenham Court Walk W1	Q2 2015	Very good
40 Chancery Lane WC2	Q3 2015	Excellent
White Collar Factory EC1 (Building 1)	Q4 2016[1]	Outstanding

[1] Expected.

Development potential

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

Page 50

Our performance
The percentage of our portfolio which is available for redevelopment, regeneration or refurbishment was 47% at the end of 2015.

%	2011	2012	2013	2014	2015
	51	53	55	52	**47**

Reversionary percentage

This is the percentage by which the cash flow from rental income would grow were the passing rent to be increased to the estimated rental value and assuming the on-site schemes are completed and let. It is used to monitor the potential future income growth of the Group.

Page 43

Our performance
The 103% reversion in the portfolio demonstrates the growth potential in our income stream.

%	2011	2012	2013	2014	2015
Reversion	42	46	56	64	**103**

Tenant retention

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

Page 46

Our performance
In order to protect our income stream where we do not have redevelopment plans, it is desirable for us to retain tenants at lease expiry or break.
Our retention and re-let rate was 89% in 2015 and averaged 86% over the past five years.

	2011	2012	2013	2014	2015
Exposure (£m pa)	16.2	14.7	20.0	17.3	**17.0**
Retention (%)	72	81	74	63	**45**
Re-let (%)	21	5	14	10	**44**
Total (%)	93	86	88	73	**89**

Strategic objective measured

Acquire properties and unlock their value

Create well-designed space

Optimise income

Recycle capital

Maintain strong and flexible financing

MEASURING OUR PERFORMANCE
CONTINUED

KEY METRICS CONTINUED

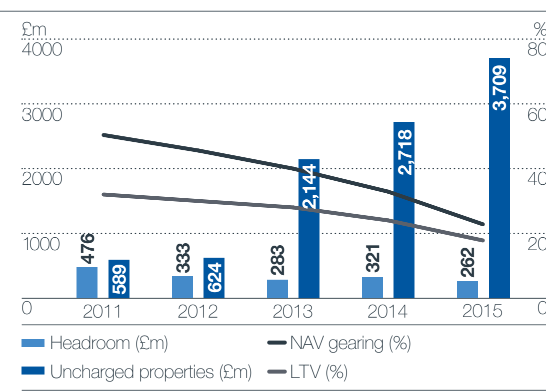
Gearing and available resources

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

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

Page 58

Our performance
Our gearing levels reduced again in 2015 and we maintained our headroom at over £250m. The level of unsecured properties increased again after the refinancing during the year.



Energy Performance Certificates (EPC)

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

Page 66

Our performance
All our 2015 and 2016 completions have matched or are expected to match our benchmark.

	Completion	Rating
Turnmill EC1	Q1 2015	B
Tottenham Court Walk W1	Q2 2015	B
40 Chancery Lane WC2	Q3 2015	B
White Collar Factory EC1 (Building 1)	Q4 2016[1]	B

[1] Expected.

Capital return

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

Page 43

Our performance

In 2015 we again exceeded our IPD benchmark, outperforming by 0.8% and over the past five years by a total of 11.3%.

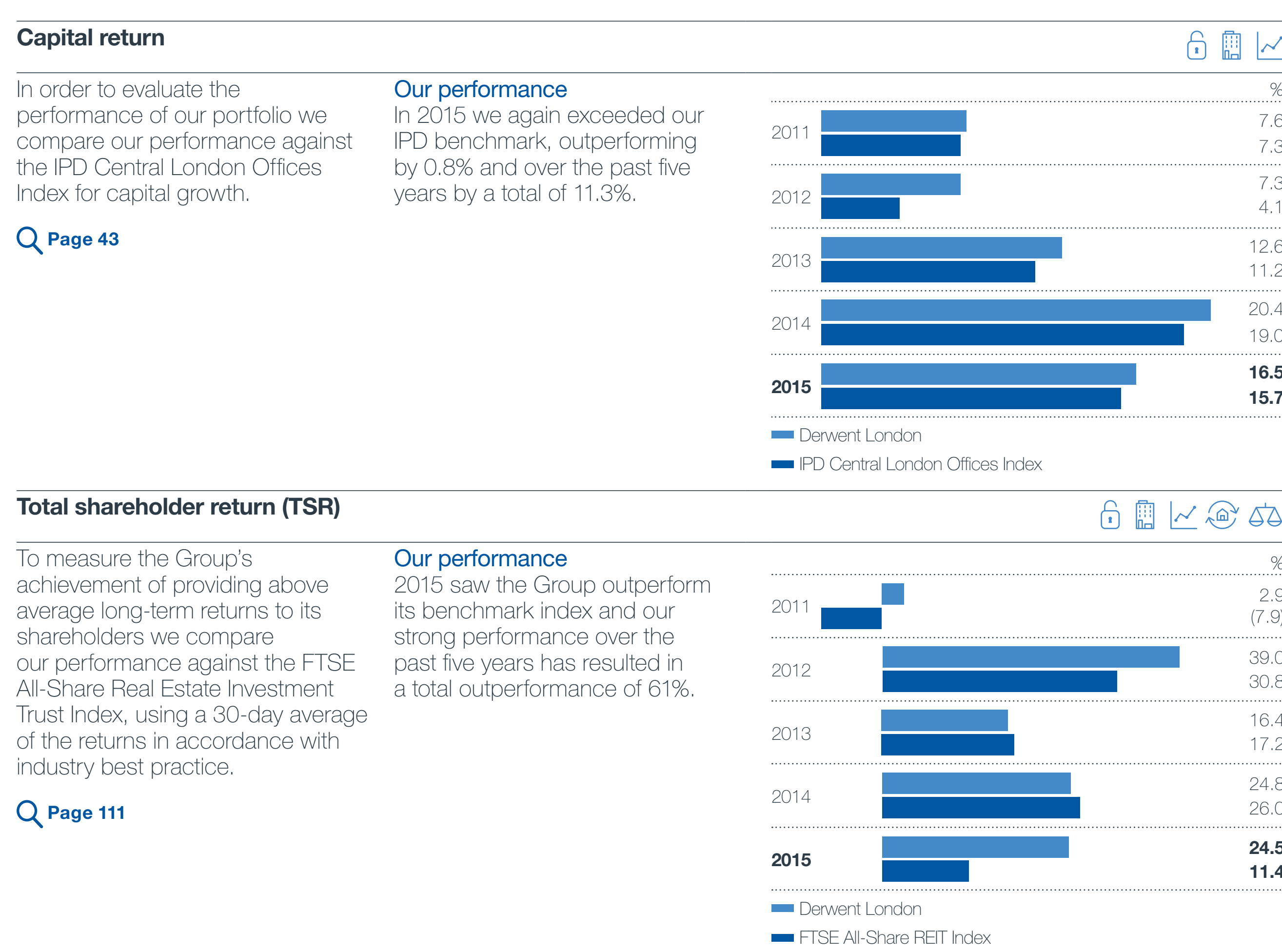
Total shareholder return (TSR)

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

Page 111

Our performance

2015 saw the Group outperform its benchmark index and our strong performance over the past five years has resulted in a total outperformance of 61%.



Strategic objective measured

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

CHIEF EXECUTIVE'S STATEMENT

Our strategy is to deliver the growth prospects from our development and asset management opportunities, while ensuring the business does not incur undue risks.

JOHN BURNS
CHIEF EXECUTIVE

"Although we achieved new rental levels at a number of properties in 2015, we believe our buildings continue to offer occupiers good value with the average ERV of our central London office portfolio still only £51 per sq ft."

Last year's achievements reinforced the Group's strong position as we consistently look to improve our long-term income prospects. This approach has seen us assemble a portfolio that has significant opportunities to benefit from improving locations, hands-on asset management and regeneration. We start 2016 with £141.0m of estimated reversion. Just over half of this potential growth derives from developments and refurbishments with a total cost to complete of £569m (equivalent to 11% of the December 2015 property portfolio) which will be phased over the next four years. The completion of this programme will add net lettable area and will signify a major upgrade to our portfolio ensuring it meets the latest occupational demands and environmental standards. In the medium term our strategy is to deliver these growth prospects while ensuring the business does not incur undue risks.

Portfolio positioned for future earnings growth

Our strategy ensures that whilst our portfolio contains a wealth of future value enhancing opportunities the vast majority remains income producing (at the year end this was 77% by area). Approximately 53% consisted of property which we have already regenerated, but which have opportunities for growth through asset management, and another 24% was occupied buildings that form our stock of future redevelopment and refurbishment schemes, where we retain control over a project's timing. The remaining 23% of the portfolio is subject to development or refurbishment projects which we continue to de-risk as they progress. During the year the EPRA vacancy rate, which is based on the space available to let, was reduced from 4.1% to 1.3%. Dependent on future pre-letting activity, this could rise in the second half of 2016 as projects are completed.

Although we achieved new rental levels at a number of properties in 2015, we believe our buildings continue to offer occupiers good value with the average ERV of our central London office portfolio still only £51 per sq ft, and with 56% of our portfolio by area let below £50 per sq ft on a 'topped-up basis'. These lie comfortably at the lower end of our middle-market range of £45-£80 per sq ft.

The current development and refurbishment programme will benefit from the opening of Crossrail. The additional estimated £569m capital expenditure to complete these projects, which includes £48m of capitalised interest, will be spread over the next four years. Construction cost inflation remains high, and capacity constraints on many contractors have seen delays across the industry including at some of our schemes. The cumulative ERV of these projects (including pre-lets) is £78.9m of which half will not be completed until 2019.

We phase the timing of the capital expenditure on our developments to ensure that it is appropriate to the Group's risk appetite. During last year we completed 226,000 sq ft of projects which are now 97% let or sold. In the next two years we expect to deliver 728,000 sq ft, which is currently 32% let by area. This includes pre-lets in the current year of all the office space (87,150 sq ft) at The Copyright Building W1 to Capita, and 28,600 sq ft at White Collar Factory EC1 to Adobe. The remaining part of our development programme totalling 620,000 sq ft relates to two West End developments: 80 Charlotte Street W1 and Brunel Building W2. Neither building completes until 2019, but we are already having preliminary discussions with potential occupiers for part of this space.

We have taken steps to unlock potential major schemes that we could start from 2018 onwards. We are particularly pleased to have agreed terms with Crossrail, which enable us to gain access to redevelop above the Crossrail site at 1 Oxford Street W1, one of London's most prominent locations.

Disciplined approach to acquisitions and disposals

We have an opportunistic approach to acquisitions within our strategic plan and were pleased to acquire two substantial Tech Belt properties last year at attractive prices of around £545 per sq ft. Both present short-term refurbishment opportunities and together will contribute 40% of our 2016-17 projects. In the longer term, both buildings offer the opportunity for regeneration and the creation of additional space in the next decade.

Overall the proceeds from property sales of £277m exceeded the cost of new acquisitions. Typically we sell investment assets when we have identified better relative growth elsewhere. In 2015, our disposals included a number of properties as part of a property swap, and a sale to an owner-occupier after we had obtained planning consent for a major hotel development. In addition we have completed and sold most of our available residential units. Following our decision to refurbish 25 Savile Row W1 as offices, our residential exposure remains modest and primarily consists of ancillary space connected with our larger commercial projects. In accordance with our usual approach, we expect to continue to recycle capital with over £100m of investment property sales planned in the current year.

Finance

Underpinning our business is a flexible financial structure and last year we took steps to strengthen this further. In January 2015 our £175m convertible bonds 2016 were converted early thereby raising new equity and reducing debt. Later in the year, we increased the level of our unsecured revolving debt by refinancing a secured loan and extended the maturity of our principal bank facility. The Group's year end financial ratios are strong with interest cover of 3.62 times and an LTV ratio of 17.8%. Since the year end we have also arranged £105m of new long-term debt which will increase the level of undrawn facilities.

The year ahead

Occupier and investment demand remains strong in Derwent London's markets and we have started the year well increasing contracted income with a significant number of new lettings at good levels. We have also enhanced our financial structure. The general economic environment has shown signs of nervousness and volatility in 2016 and, if conditions were to deteriorate, our balance sheet strength would give us considerable resilience. However, providing occupier demand remains solid, we expect to see further good letting activity as the year unfolds thereby locking in significant income growth.

JOHN BURNS
CHIEF EXECUTIVE

25 FEBRUARY 2016

OUR MARKET

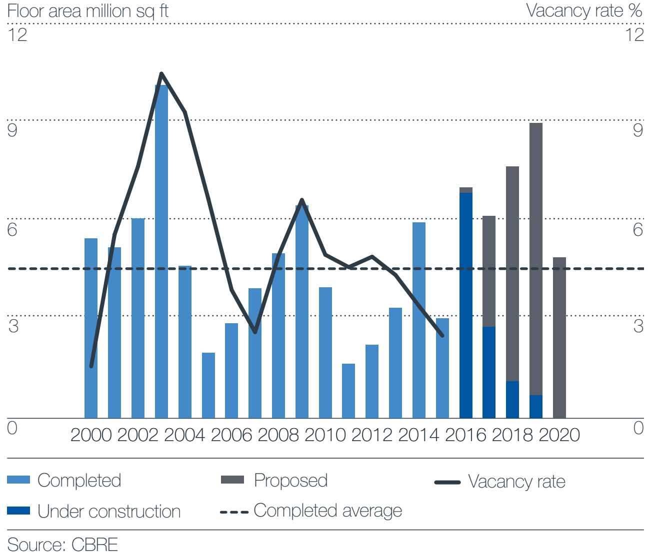
CBRE's views support our own estimates of 5-8% average ERV growth across our portfolio and for investment yields to remain firm in 2016.

Last year the Group continued to enjoy very favourable market conditions with strong occupier demand underpinned by a growing UK economy. The recent falls in public equity prices and the value of oil and other commodities demonstrate that, despite some recovery in the USA and European economies, overall economic growth remains fragile and faces a number of risks. The latest estimates see the UK economy growing at about 2% pa over the next two years, one of the faster growth rates amongst the G8 economies, and London's growth rate is expected to remain in excess of the UK average.

This level of economic activity remains conducive to employment growth and continuing low interest and inflation rates in the UK. CBRE forecasts Inner London office employment growth at 1.7% pa in the next five years. Last year 14.5m sq ft of central London office space was taken up, of which 4.4m sq ft was in the West End. Total take-up was 3% below the previous year's level, but remains well above trend. In 2015 demand from the financial sector recovered so take up was more evenly spread across sectors with business and professional services at 35.8%, banking and finance at 24.4% and TMT at 20.2%. The overall vacancy rate reduced to 2.5% in central London (one of the lowest levels recorded), and to 2.2% in the West End. Prime rental levels are now estimated at £120 per sq ft in Mayfair and St. James's, £82.50 per sq ft in Fitzrovia and £68.50 per sq ft in the City.

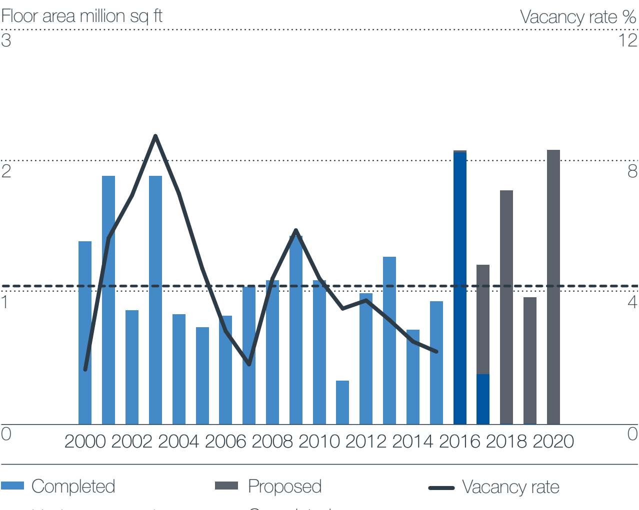
The decline in the vacancy rate has led to a supply response with estimated above average central London completions in each of the next five years. In total this adds up to a potential 35 million sq ft of space, or 16% of the current market. The net impact is likely to be lower than this as only 33%, or 11.6m sq ft, is under construction and, of this amount, 40% is pre-let or under offer. The outcome is 6.9m sq ft of speculative space currently available which represents less than half of last year's take-up. The full impact of the 23.4m sq ft yet to start may be deferred due to planning delays and the availability of finance.

Central London office development pipeline



Source: CBRE

West End office development pipeline



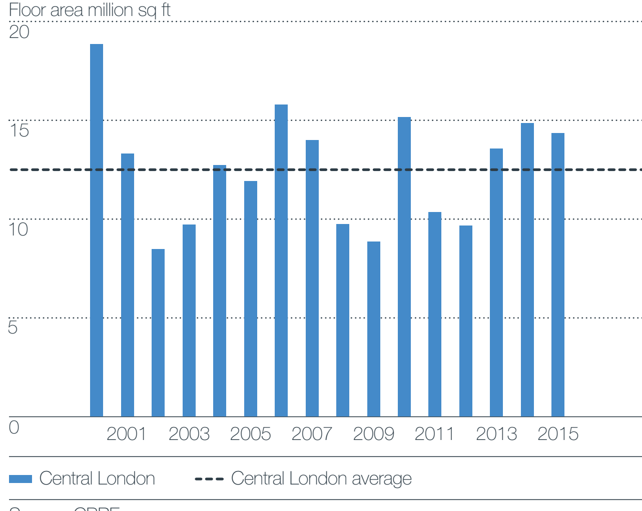
Source: CBRE

Another feature of the potential supply is that only 24%, or 8.2m sq ft, is in the West End and the amount of new supply to be delivered in the West End is expected to fall between 2016 and 2019. Of this potential supply 2.5m sq ft is under construction of which 30% is pre-let. This leaves 1.7m sq ft under speculative construction representing 40% of last year's take-up. After the completion of White Collar Factory and the refurbishment of The White Chapel Building E1 later this year, our subsequent committed major projects are all located in the West End.

Last year saw £16.2bn of central London investment transactions (£8.2bn in H1), which was £2.3bn below 2014 levels with a smaller volume of deals above £100m. Overseas investors continued to dominate, but the UK buyers' share of the total increased to 42% from 31%. CBRE reports that demand weakened in Q3 before picking up again in Q4, and there was £4.5bn of office stock under offer at year end. However, it expects to see more stock on the market as some investors seek to take profits. CBRE expects yields to be unchanged in 2016 given the background of continuing low interest rates and central London's growth prospects. It estimates rental growth in the City and West End markets for 2016 to be over 6%. Our own portfolio has a more significant West End and Tech Belt weighting than the central London average, but CBRE's views support our own estimates of 5-8% average ERV growth across our portfolio and investment yields to remain firm in 2016.

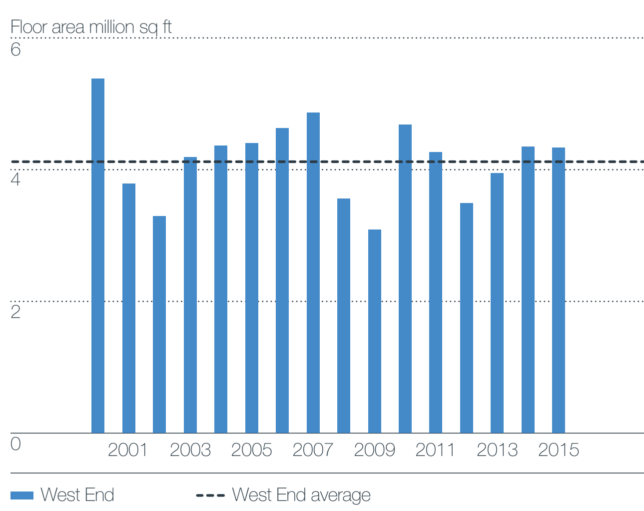
In the near term the London property market continues to face a number of specific opportunities and challenges. Crossrail is on track to open in 2018. This will improve London's east-west connectivity and, in central London, the new service is expected to particularly benefit Tottenham Court Road and Farringdon. Approximately half our portfolio is located near these two stations. With London's population growth expected to continue, attention has begun to focus on central London's next major rail project, Crossrail 2, but this is still uncommitted and the project is unlikely to complete before 2030 at the earliest. If it goes ahead it will improve north-south connectivity, again running through Tottenham Court Road and with new stations in our Islington and Victoria villages.

Central London office take-up



Source: CBRE

West End office take-up



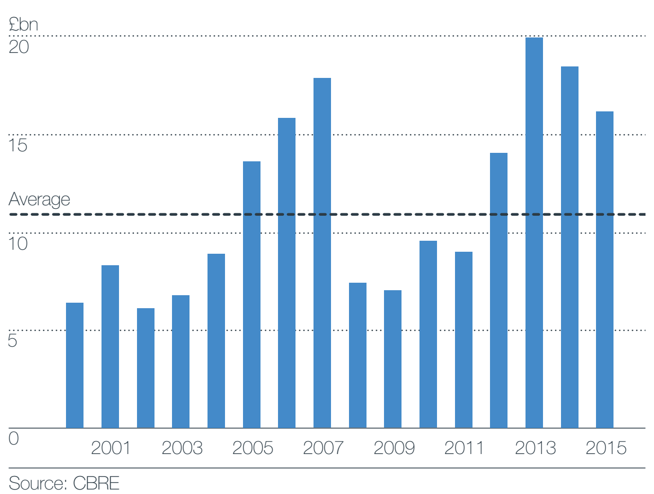
Source: CBRE

OUR MARKET
CONTINUED

It is expected that business rates (local taxes) will increase in 2017, and this is likely to raise occupation costs in London. The new rates will be set on April 2015 rental levels, whereas the current rates are set on April 2008 levels. As most London commercial property has experienced good rental growth in that period, business rates are likely to rise, although a transitional period, if adopted, could defer the full impact. Although these costs are borne by our tenants, the rise in overall occupation costs may affect future rental growth while these additional expenses are absorbed. CBRE has recently estimated the impact across 19 central London locations. On an unweighted basis the average increase in rates on prime offices is 40%, which translates into an average increase of occupational costs (rates and rents) of 11%. Given that we have seen strong rental growth on our properties we would expect to be affected and CBRE estimates that occupational costs in our largest village, Fitzrovia, will increase by 4%. Based on their numbers, the successful Shoreditch and Farringdon locations could experience some of the higher increases of our villages, with increases of 13% and 9% respectively. These numbers remain a matter of conjecture at this stage, but they suggest Tech Belt total occupancy costs will still remain substantially below most of the traditional core office locations.

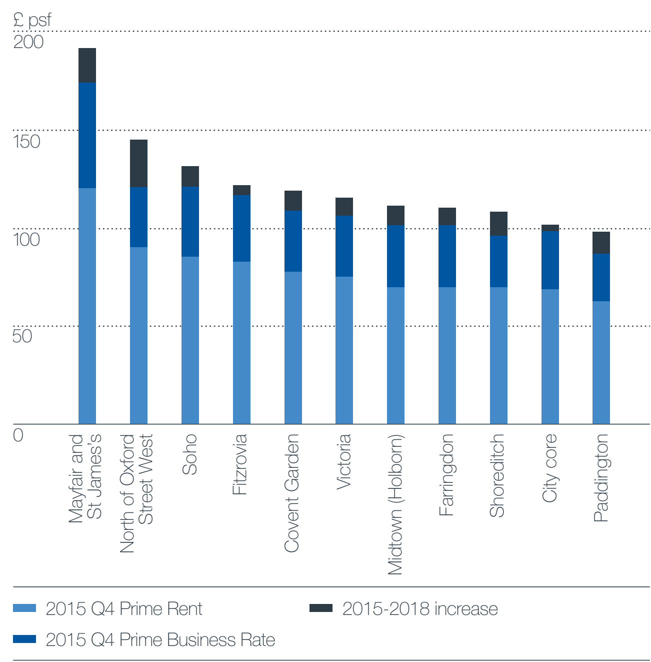
As well as these two specific catalysts there are two uncertainties based on upcoming votes. On 5 May Londoners will choose a new Mayor, and, whatever the outcome, there are likely to be some policy changes. In addition, a national referendum on whether the UK should remain in the European Union is to be held on 23 June. We have previously discussed the additional property market uncertainty that we would expect to see if the result was for the UK to leave the EU. CBRE warns that the central London office market would be the most affected given the sensitivity of the financial services industry. Our own portfolio would not be immune to any potential fall out, but it has no exposure to the City core market and financial tenants accounted for just 2% of our rental income in December 2015.

Central London office investment transactions



Source: CBRE

Estimated business rates



Source: CBRE

VALUATION

As valuation yields appear to have levelled out, future property valuation growth is most likely to come from rental returns, development surpluses and asset management.

NIGEL GEORGE
EXECUTIVE DIRECTOR

The Group's investment portfolio was valued at £5.0bn as at 31 December 2015, having benefited from buoyant occupational demand, development surpluses and a further tightening of valuation yields. The valuation surplus for the year was £672.2m, before accounting adjustments of £20.8m (see note 16) giving a total reported movement of £651.4m. The underlying valuation increase was 16.5% which followed 20.4% in 2014, another strong year. We have outperformed our benchmarks again in 2015. The IPD Central London Offices Index increased by 15.7% and the wider IPD UK All Property Index rose by 7.8%.

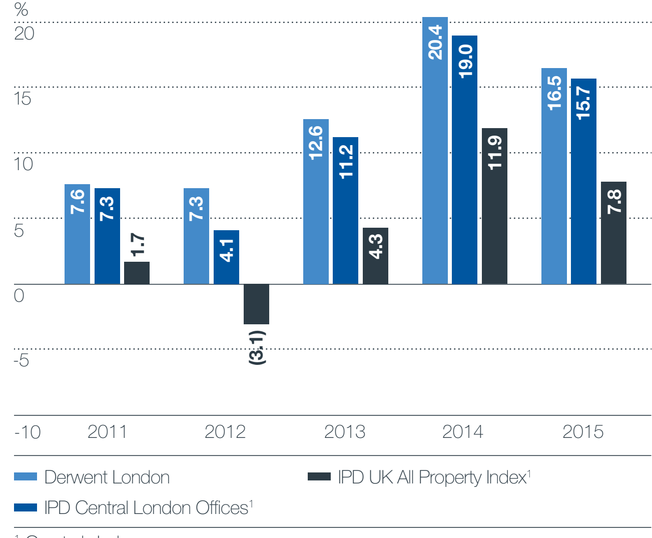
By location, our central London properties, which constitute 98% of the portfolio, saw an underlying valuation increase of 16.8%. The West End was up 14.6% and the City Borders rose 22.5%. The Scottish properties represent the balance of the portfolio and increased by 1.3%. The portfolio's total property return was 19.9% in 2015 compared to 25.1% in 2014. The IPD total return index was 19.7% for Central London Offices and 13.1% for All UK Property.

Within the investment portfolio, we were on site at five developments during the year. Four of these, Turnmill EC1, 40 Chancery Lane WC2, White Collar Factory EC1 and The Copyright Building W1 were commercial developments whilst the fifth was a small residential scheme at 73 Charlotte Street W1. In total these projects were valued at £457.5m and delivered a 31.5% uplift in the year. Turnmill and 40 Chancery Lane were completed in the year and handed over to Publicis Groupe, and at 73 Charlotte Street the majority of the apartments have been sold. At year end we were still on-site at White Collar Factory and The Copyright Building. These two projects were valued at £259.3m and are progressing well.

£651.4m
valuation surplus

16.5%
underlying valuation uplift

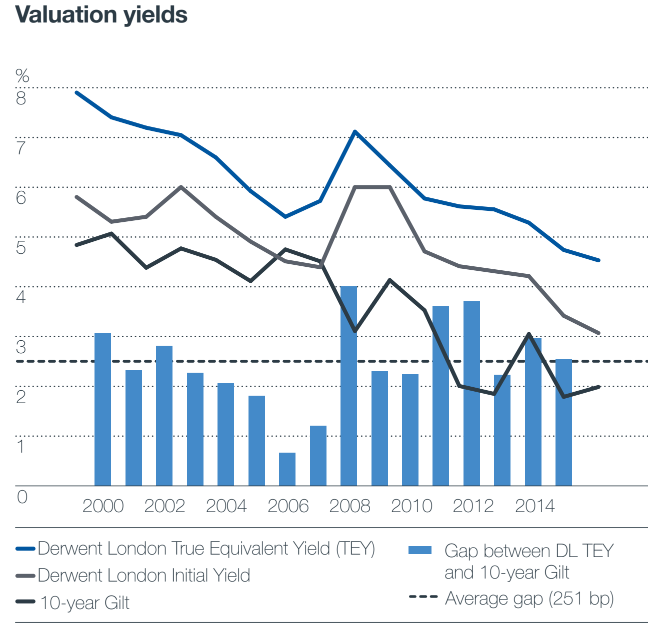
Valuation performance



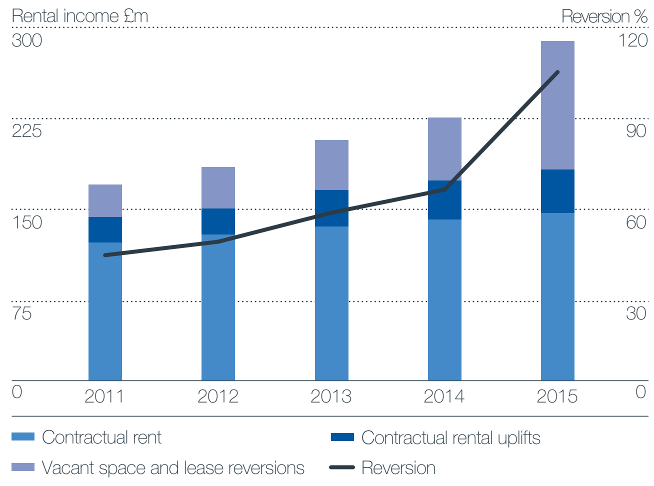
[1] Quarterly Index.

VALUATION
CONTINUED

Valuation yields



Portfolio income potential



At the end of the year we added two new developments, both properties where we had achieved planning permissions for substantial floor area increases. These were 80 Charlotte Street W1 and Brunel Building W2 which were valued at £251.4m. Both will be completed in 2019.

At 1-2 Stephen Street W1, our major refurbishment project during the year, we completed the latest phase of works. This focused on improving and extending the retail units on Tottenham Court Road and followed a phased upgrade of nearly half the office space. The letting of the majority of the retail units and the office refurbishment at above anticipated rental values contributed to a strong valuation rise of 19.0% on the property to £340.6m.

Looking at our rental growth, it was another strong year. Rental values, on an EPRA basis, rose by 11.8% following 9.0% in 2014. During 2015 the City Borders saw rental growth of 15.2% and the West End 10.8%.

On an EPRA basis the portfolio's initial yield was 3.1% which increases to 3.8% on a 'topped-up' basis, following expiry of rent free periods and contractual rental uplifts. For the previous year, these figures were 3.4% and 4.0% respectively. The true equivalent yield at year end was 4.52%, a 21bp reduction over the year and follows 55bp of yield tightening in 2014. This tempering of yield compression was further illustrated with the second half of 2015's movement being 4bp compared to 17bp in the first half. As valuation yields appear to have levelled out so future property valuation growth is most likely to come from rental returns, development surpluses and asset management.

The December 2015 valuation recorded a good increase in our portfolio's contracted income and a very significant increase in our potential income. Overall, our contracted income has risen 4.1% to £137.1m pa and our ERV has risen 29.0% to £278.1m pa.

The portfolio's reversion stands at £141.0m. Of this growth £35.5m is contractual and due to come from fixed uplifts or the expiry of rent free periods within the leases. Adding this to our contracted income takes 'topped-up' rent to £172.6m, 5.4% higher than last year.

The bulk of the reversion comes from the potential income from letting either vacant space under construction, under refurbishment or currently available. It primarily reflects the recent start of the two new developments at 80 Charlotte Street W1 and Brunel Building W2, and the acquisition of The White Chapel Building E1 (previously known as Aldgate Union), which is currently undergoing refurbishment. The total ERV of vacant space at the year end was £76.4m pa. Whilst this has more than doubled since June 2015, much of this space will not be delivered for four years. These projects require £569m of further expenditure, and offer a degree of flexibility on the timing of delivery. Of this vacant space 75% derives from developments, 22% from refurbishments and only 3% represents existing vacancy. We have let or pre-let 12% of this space since the year end for £9.2m pa net, at levels in excess of December 2015 ERV.

The final component of our growth could come from lease reviews and renewals and this is estimated to add £29.1m to our income, which is 24% higher than last year.

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation[1] performance %	Valuation performance £m	Occupied floor area '000 sq ft	Available floor area '000 sq ft	Minor refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central	2,818.0	57	13.8	343.2	2,345	54	69	725	3,193
Borders	471.0	9	19.8	77.7	538	13	33	–	584
	3,289.0	66	14.6	420.9	2,883	67	102	725	3,777
City									
Borders	1,599.4	32	22.5	254.8	1,526	1	316	209	2,052
Central London	4,888.4	98	16.8	675.7	4,409	68	418	934	5,829
Provincial	100.1	2	1.3	1.3	336	1	3	–	340
Total portfolio 2015	**4,988.5**	**100**	**16.5**	**677.0[2]**	**4,745**	**69**	**421**	**934**	**6,169**
2014	4,168.1	100	20.4	683.8	5,144	129	108	363	5,744

[1] Underlying – properties held throughout the year.
[2] £672.2m after deducting capitalised interest.

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		137.1
Contractual rental increases across the portfolio	35.5	
Letting 69,000 sq ft available floor area	2.4	
Completion and letting 421,000 sq ft of minor refurbishments	16.7	
Completion and letting 934,000 sq ft of major projects	57.3	
Anticipated rent review and lease renewal reversions	29.1	
Portfolio reversion		141.0
Potential portfolio rental value		278.1

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	75.9	32.78	51.4	30.3	157.6	7.4
Borders	17.7	32.93	0.8	5.6	24.1	7.1
	93.6	32.81	52.2	35.9	181.7	7.3
City						
Borders	38.5	25.81	24.2	28.4	91.1	6.5
Central London	132.1	30.38	76.4	64.3	272.8	7.1
Provincial	5.0	14.80	–	0.3	5.3	4.5
Total portfolio 2015	**137.1**	**29.28**	**76.4**	**64.6**	**278.1**	**7.0**
2014	131.7	25.77	28.4	55.5	215.6	6.6

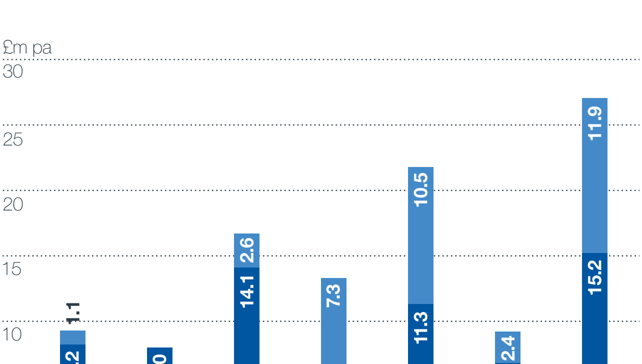
[1] Lease length weighted by rental income at year end and assuming tenants break at first opportunity.

PORTFOLIO MANAGEMENT

2015 was a record year for Group letting activity. In total we secured £27.1m of rental income at an average level 10.8% above December 2014 ERVs.

PAUL WILLIAMS
EXECUTIVE DIRECTOR

Letting activity by rental income



2015 was a record year for Group letting activity. In total we secured £27.1m of rental income on 523,800 sq ft at an average level 10.8% above December 2014 ERVs. Of this, 44% by income were pre-lets as we let development space during its course of construction. Open market lettings were 14.3% above December 2014 ERVs. Second half lettings totalled £10.7m pa on 201,200 sq ft, and were on average 22.3% above December 2014 ERVs or 12.9% above June 2015 ERVs. Notable new rental levels were achieved at 1 Stephen Street W1, Davidson Building WC2 (since sold) and Charlotte Building W1 all at £80 per sq ft or above for the upper floors, and at White Collar Factory EC1, Tea Building E1 and Angel Square EC1 where rents of £62.50 per sq ft, £57.50 per sq ft and £55.00 per sq ft respectively, were obtained.

Significant transactions included the letting of the majority of the commercial space on our recently completed projects including the office space at 1-2 Stephen Street W1 and eight of the nine retail units at Tottenham Court Walk W1. Together these added £5.8m to rents. We also made our first pre-lets at White Collar Factory securing £4.9m pa.

£27.1m
of new lettings in 2015

£10.1m
of new lettings in 2016 year to date

Principal lettings in 2015

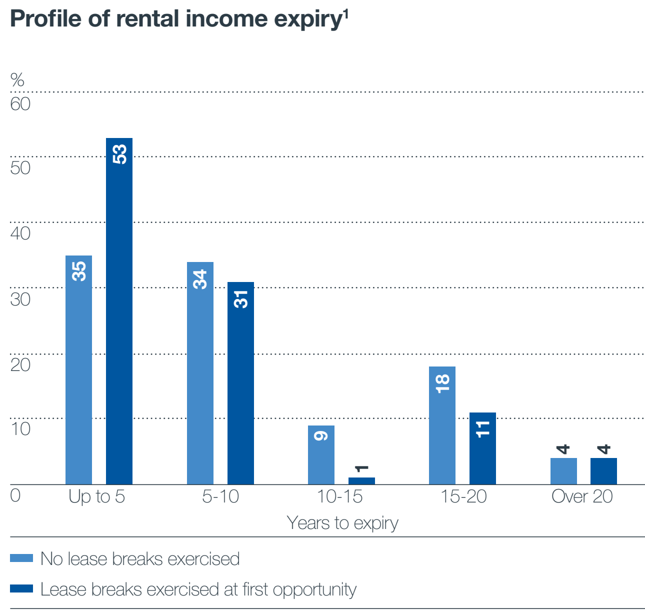
	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min/fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
2 Stephen Street W1[1]	The Office Group	34,150	65.00[1]	2.2	71.75	20	–	15
Angel Square EC1	Expedia	57,600	36.80	2.1	41.60	6	3 & 5	2.5, plus 3 if no break in year 3
1 Stephen Street W1	AnaCap	16,150	81.75	1.3	84.25	10	–	15
Tea Building E1	Feed	7,990	47.50	0.4	–	5	–	5
Davidson Building WC2	Astus UK	4,370	80.00	0.3	82.50	10	5	7, plus 5 if no break
Q2								
White Collar Factory EC1	The Office Group	41,300	57.50	2.4	63.50	20	–	24
Angel Square EC1[1]	The Office Group	40,700	35.00[1]	1.4	38.65	10[2]	–	9
Davidson Building WC2	First Utility	6,230	72.50	0.5	75.00	10	5	7, plus 7 if no break
Morelands EC1	Spark44	5,370	55.00	0.3	60.00	9	5	9, plus 3 if no break
Q3								
White Collar Factory EC1	AKT II	28,400	57.50	1.6	63.50	20	12 & 15	24
20 Farringdon Road EC1	Improbable Worlds	25,700	42.50	1.1	43.50	6	–	7
Charlotte Building W1	Kingston Smith	5,960	82.50	0.4	85.00	10	–	14
Angel Square EC1	DrEd	4,740	55.00	0.3	–	4.5	3	3, plus 2 if no break
Davidson Building WC2	Elastic search	6,300	72.50	0.5	76.00	10	5	7, plus 5 if no break
20 Farringdon Road EC1	Moo Print	33,500	45.00	1.5	49.50	10	6	8
Tea Building E1	Transferwise	23,950	57.50	1.4	–	5	–	6
White Collar Factory EC1	BGL	14,300	62.50	0.9	69.00	10	–	18
Davidson Building WC2	Alibaba	6,310	72.50	0.5	74.70	10	5	7, plus 7 if no break
Q4								
Tottenham Court Walk W1	Marie Claire	7,900	–	0.4	–	10	5	7.5

[1] The Group will get a share of The Office Group's profits on this space above a minimum level.
[2] Landlord's break in year five.

Rental value growth

The purchases of Angel Square EC1 in November 2014 and 20 Farringdon Road EC1 in February 2015 brought almost immediate letting opportunities. The former 126,900 sq ft property was acquired with an income of £2.4m pa, equivalent to an average rent of £19 per sq ft. The majority of the leases expired in March 2015, but we swiftly re-let 98,300 sq ft to Expedia and The Office Group, and the property is now virtually fully let at a rent of £4.8m pa. The second purchase was a 170,600 sq ft building producing £3.2m pa net. In the second half we re-let the 25,700 sq ft ground floor, and embarked on the refurbishment of 88,000 sq ft, of which 38% has been pre-let. Assuming we let the remaining available space at ERV we will have increased the income on the property to £6.5m pa net.

Profile of rental income expiry[1]

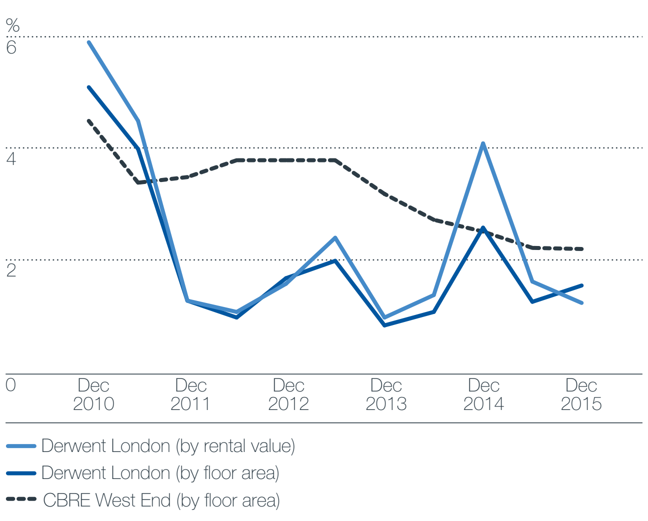


[1] Based upon annualised net contracted rental income of £137.1m.

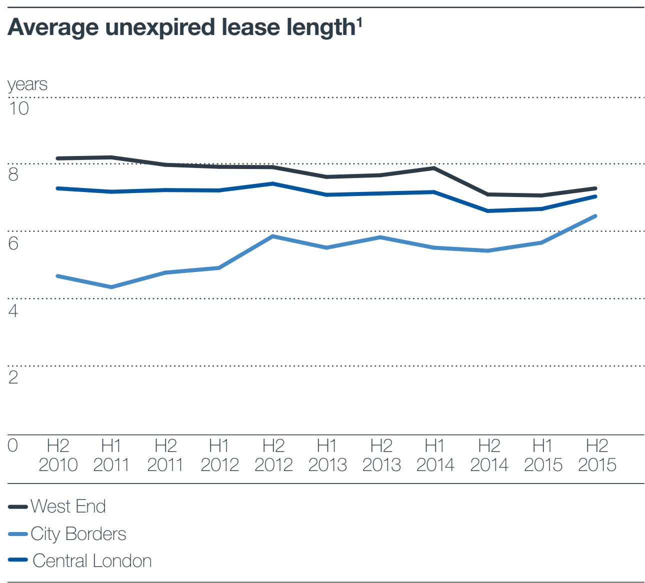
For some time we have been monitoring the expansion of the new breed of flexible office space providers. We could see they were responding to significant demand for small amounts of space, lease flexibility and co-working facilities that would be too management intensive for our business. One operator which caught our attention was The Office Group (TOG), who share with us an interest in workspace design. Last year we made three lettings to them totalling 116,150 sq ft, or £6.0m pa of rent (3.5% of contractual rent). All these transactions are at properties with multi-let strategies, and were agreed at market rents with two incorporating an additional profit share once TOG has achieved a threshold return. The most significant of these is at 2 Stephen Street W1 where, based on current profitability, we are expecting overage income of about £7 per sq ft in 2016 on 34,150 sq ft. We expect the TOG space to complement our offer and extend our buildings' appeal to a wider range of potential occupiers to whom we are unable to offer the same level of services and lease flexibility. TOG's services are available both to occupiers within the buildings and to other businesses in the vicinity, which we believe adds to each properties' utility and vibrancy.

Our letting progress saw the EPRA vacancy rate on our portfolio fall from 4.1% to 1.3% in the year. The major components of this residual have either since been let or are currently under offer. However in addition to the immediately available space we have a number of refurbishments under way which will provide letting opportunities during the course of the year. The most significant is at The White Chapel Building E1, which we acquired vacant in December 2015 and is now undergoing a light refurbishment at a cost of around £18m. We expect 200,000 sq ft of refurbished offices to be available here in the latter part of 2016 with an ERV of c.£9.0m. Other notable projects include rejuvenating space at 20 Farringdon Road EC1, Network Building W1 and the eighth floor of 1 Stephen Street W1. Assuming we are unable to secure any further lettings at White Collar Factory or these other projects, our proforma vacancy would rise to c.12%.

Five-year vacancy trend



Average unexpired lease length[1]



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

During 2015 the Group carried out 35 rent reviews on 357,300 sq ft and 29 lease renewals on 72,300 sq ft. In total this increased the income from these properties by 27.7% to £18.2m pa. 98% of all rents were collected within 14 days of the due date.

In the current year to date we have let 132,300 sq ft for £10.1m pa gross (£9.2m net). The most significant letting was of the 87,150 sq ft office element at The Copyright Building W1 which was announced today. Capita is taking a 20-year lease for a gross rent of £7.4m pa. After ground rents we will receive £6.5m pa. The average office rent is £86 per sq ft, which was above December ERV, but after allowing for rental incentives equivalent to a 34 months rent-free period and a payment to Capita's current landlord to extend their lease to allow a back-to-back move into The Copyright Building, the terms are in line with December levels. The other major letting in the period was a further two floors at White Collar Factory where Adobe has pre-let 28,600 sq ft for £1.8m pa.

"We have been at Greencoat House for over ten years. The building works well for us and our occupation has grown with our business so we now occupy 50,000 sq ft. Moreover, we see the refurbished building as an important element of our brand. Our expansion in the building has been achieved as a result of a truly collaborative relationship with the team at Derwent London."

CHIME COMMUNICATIONS

PROJECTS

During 2015 we delivered four major projects. These have proved very profitable providing £10.3m of net rental income and a 72% profit on cost.

SIMON SILVER
EXECUTIVE DIRECTOR

During 2015 we completed four major projects totalling 226,000 sq ft, the commercial elements of which are now virtually fully let. Our residential scheme at 73 Charlotte Street W1 was completed in September, and we have sold nine apartments leaving one under offer and one available. These projects have proved very profitable providing the Group with £10.3m of net rental income and the four major projects recorded a 72% profit on cost.

We are now on-site at four major projects. White Collar Factory is our signature Tech Belt development overlooking Silicon Roundabout. Following five years' research by our own design team, together with AHMM (architects) and Arup (engineers), it incorporates a number of design principles which enhance its flexibility, utility and sustainability to occupiers. The ERV has risen 12% to £16.5m pa in 2015 and we have budgeted to spend a further £62m of capital expenditure to complete the project in Q4 2016 with 38% already pre-let.

At The Copyright Building W1 we have today announced the letting to Capita of the entire office element leaving 20,000 sq ft of retail still to let. The ERV of this retail space is £1.1m pa gross (£1.0m net). We estimate future capital expenditure at £49m to complete the scheme in H2 2017.

At 80 Charlotte Street in the heart of Fitzrovia, we have commenced stripping out with full demolition of the existing property to start later this year. The major island site will comprise a 309,000 sq ft office building capable of being multi-let as well as ancillary retail and residential space. This ancillary space will include the development of 67 Whitfield Street with 14,000 sq ft residential, and the redevelopment of the neighbouring Asta House which will comprise 12,000 sq ft offices and 31,000 sq ft residential including 32% affordable. The project's estimated ERV is £23.9m pa and capital expenditure to complete is estimated at £207m. Following delays in finishing other projects, completion is now expected in H1 2019.

31.5%
increase in value of development properties

1.0m sq ft
of on-site projects

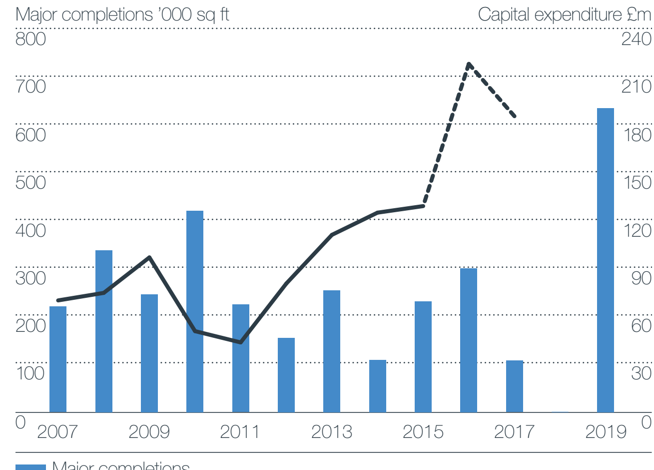
We are also on site at the Brunel Building W2, where our scheme will provide modern flexible office space and enhance the immediate location by opening up the canal side beside Paddington station (another beneficiary of Crossrail). In November we fixed the price of the construction contract and the overall capital expenditure to complete is estimated at £122m. The ERV is £14.8m pa net with completion expected in H1 2019.

At the half year we highlighted the impact of escalating building costs. We challenged the consensus indices that were reporting 4 to 6% annual inflation arguing that in central London it was actually running closer to 10% pa. We expect it to continue at this level through 2016. Our sensitivity to construction costs principally resides with The Copyright Building and 80 Charlotte Street as our other two major projects' costs are fixed. This leaves approximately half of our four year capital expenditure with variable costs but we have assumed inflation in our estimates.

We have made advances on our future projects that could start from 2018 onwards. In July we agreed terms at 1 Oxford Street W1 with Crossrail whereby we will be granted a new 150-year lease in return for a payment to them of £55m. Of this sum £2m has been paid, a further £5m will be payable on release of the site, with the residual £48m payable on practical completion of our buildings. In addition, Crossrail will receive 16% of any development profit and a ground rent equivalent to 5% of the rent on the commercial space. The site, which is currently being developed as the Tottenham Court Road Crossrail station, has planning for 204,000 sq ft offices, 37,000 sq ft retail and a 34,000 sq ft theatre. Work is due to start in early 2018 and this exciting project represents the west side of a major new central London piazza.

Earlier in the year we signed a Memorandum of Understanding with our joint venture partners, The Portman Estate, enabling us to progress preliminary planning studies on another major potential project at 19-35 Baker Street W1. The existing buildings, which are fully let off low rents, comprise 146,000 sq ft, but our plans indicate the site is capable of supporting up to 250,000 sq ft. Our ownership is 55% and the earliest possession date is 2018.

Completions and capital expenditure



PROJECTS
CONTINUED

Major projects pipeline

	Area sq ft[1]	Delivery	Comment
Projects completed in 2015			
Turnmill, 63 Clerkenwell Road EC1	70,500	Q1 2015	Offices and retail – 100% let
Tottenham Court Walk W1	38,000	Q2 2015	Retail – 93% let
40 Chancery Lane WC2	102,000	Q3 2015	Offices and retail – 100% let
73 Charlotte Street W1	15,500	Q3 2015	Residential and offices – 77% sold/let
	226,000		
Projects on site			
White Collar Factory, Old Street Yard EC1	293,000	Q4 2016	Office-led development – 38% pre-let
The Copyright Building, 30 Berners Street W1	105,000[2]	H2 2017	Offices and retail – 81% pre-let
80 Charlotte Street W1	380,000	H1 2019	Offices, residential and retail
Brunel Building, 55-65 North Wharf Road W2	240,000	H1 2019	Offices
	1,018,000		
Major planning consents			
1 Oxford Street W1	275,000		Offices, retail and theatre
Monmouth House EC1	125,000		Offices, workspaces and retail
	400,000		
Grand Total	**1,644,000**		

[1] Proposed areas.
[2] Excludes reception area.

£521m
of estimated capital expenditure to complete committed programme

19.6%
of on-site projects pre-let

"Grey Advertising was one of the first occupants of the Johnson Building in 2006 sharing Derwent London's vision for this exciting new office area. We love the vibrancy of the location and the flexibility of the building, and with our own entrance and frontage we are able to promote our profile on the street."

GREY ADVERTISING

In June we received planning consent for a 110,000 sq ft hotel and offices at Wedge House, 40 Blackfriars Road SE1. The existing property is a 38,700 sq ft building and we had previously engaged with Ennismore, the owners of The Hoxton, to draw up new plans. Following the success of our application and the resolution of a number of outstanding matters we sold the building to Ennismore for £33.0m after costs in December releasing value early and securing a substantial capital uplift. We are being retained as development manager for which we will receive a fee of £1.5m. Completion of the new 192-room Hoxton is expected in 2018.

Since the year end we have received planning permission for two projects: Monmouth House EC1 and Balmoral Grove N7. The former would involve the redevelopment of two existing office buildings of 69,000 sq ft into a new property providing 125,000 sq ft of offices, workspaces and retail. It is located adjacent to White Collar Factory and therefore will benefit from the latter's progress in transforming the south western corner of Silicon Roundabout. Our earliest possession date for this site is 2017. Balmoral Grove is 67,000 sq ft of industrial and office space in Islington. Consent has been obtained to redevelop this site with 280,000 sq ft of residential and commercial space, of which 44% of the residential will be affordable. We have agreed terms to sell this property to a residential developer subject to the resolution of a few outstanding matters.

"Everything we hoped it would be, and a little bit more. Derwent has been incredibly flexible and understanding of our vision."

BRANDOPUS (1-2 STEPHEN STREET W1)

80 Charlotte Street W1

The Copyright Building W1

Brunel Building W2

Project summary 2016-2017 – on site

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2016 capex £m	2017 capex £m	2018+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
White Collar Factory EC1	–	124	293	60	2	–	62	Q4 2016	£60
The Copyright Building W1	(0.2)	86	105[1]	28	20	1	49	H2 2017	£80
80 Charlotte Street W1	–	234	380	22	99	86	207	H1 2019	£75
Brunel Building W2	(0.1)	78	240	29	34	59	122	H1 2019	£62.50
	(0.3)	**522**	**1,018**	**139**	**155**	**146**	**440**		
General									
The White Chapel Building E1	–	255	242	18	–	–	18	Q4 2016	£45
20 Farringdon Road EC1	–	88	88	10	–	–	10	Q4 2016	£50
Planning and Design	–	–	–	9	8	1	18		
Other	–	–	–	22	6	7	35		
		343	**330**	**59**	**14**	**8**	**81**		
Total	**–**	**–**	**–**	**198**	**169**	**154**	**521**		
Capitalised interest	**–**	**–**	**–**	**15**	**12**	**21**	**48**		
Total including interest	**(0.3)**	**865**	**1,348**	**213**	**181**	**175**	**569**		

[1] Excludes reception area.

Project summary 2017 onwards – future schemes

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	2018	Offices, retail and theatre
Monmouth House[1] EC1	1.7	69	125	2017	Opposite White Collar Factory – Feb 2016 consent
Balmoral Grove N7	0.4	67	280	–	Sale exchanged
	2.1	**136**	**680**		
Appraisals[2]					
19-35 Baker Street W1	5.4	146	250	2018	Joint venture – 55% Derwent London interest
Premier House SW1	2.2	62	80	2018	
Angel Square EC1	2.9	127	190	2020	
20 Farringdon Road EC1	1.0	171	200	2021	
Network Building W1	1.4	64	100	2021	
Holden House W1	4.7	91	137	TBC	
	17.6	661	957		
Adjustment for JVs	(2.4)	(66)	(113)		19-35 Baker Street W1
	15.2	**595**	**844**		
Consented and appraisals	**17.3**	**731**	**1,524**		
On-site projects	**(0.3)**	**865**	**1,348**		
Pipeline	**17.0**	**1,596**	**2,872**		

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

INVESTMENT ACTIVITY

We were able to acquire two substantial buildings in the Tech Belt at a low average cost to maintain the balance of our portfolio, with its attractive growth profile.

DAVID SILVERMAN
EXECUTIVE DIRECTOR

£248m

of principal commercial property sales at 18% premium to December 2014 values

£247m

of principal property acquisitions at an average of £570 per sq ft

Despite very competitive market conditions during 2015 we were able to acquire two substantial buildings in the Tech Belt at a low average cost of £545 per sq ft. We also acquired a number of smaller retail and office properties. These are strategically placed close to our current holdings at the eastern end of Oxford Street, and will benefit from the significant changes to this area.

The first Tech Belt acquisition was in Clerkenwell, an area we had previously identified as a major beneficiary of Crossrail. Our recent acquisition and development activity has seen our exposure to this village rise from 5% to 11% in the last five years. The 175-year lease of 20 Farringdon Road, with a ground rent of 10% pa, was acquired in February 2015 through a property swap. This substantial property is located opposite the new Farringdon Crossrail station which will be an important interchange with the London underground and the Thameslink overground line. In the second half of 2015 we renewed the lease on the 25,700 sq ft ground floor raising the rent from £2 pa to £1.1m pa (£42.50 per sq ft). We are currently refurbishing 88,000 sq ft principally on the upper floors at a total cost of £11m and have pre-let 38% at £45 per sq ft. All the leases expire or have a landlord break in 2021/2022 giving us the scope to consider a more significant redevelopment following the opening of Crossrail which is expected to complete the transformation of an area that is already improving.

The second Tech Belt acquisition was in Whitechapel, at the eastern end of the Tech Belt arc. We see this village as offering attractive value given the good levels of occupier demand here and the rent increases seen elsewhere. We made our first acquisition in the Whitechapel market in 2012 when we acquired 9 and 16 Prescot Street E1. This is now held in a 50/50 joint venture as a consequence of our property swap for 20 Farringdon Road. Our progress on this property and elsewhere in the Tech Belt gave us the confidence to acquire The White Chapel Building with vacant possession. This represents a departure from our normal practice of acquiring income producing buildings. In this exceptional case we believe that, due to the good condition and flexibility of the existing property, it requires only a modest level of refurbishment. Since the year end we have acquired the long lease on the lower ground floor for £12m after costs, which extended our ownership to 285,000 sq ft.

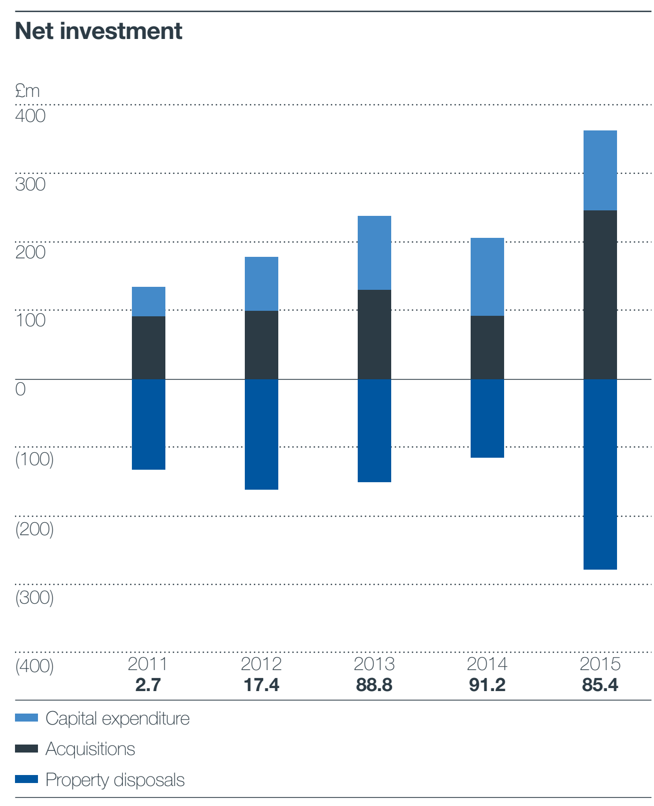
To maintain the balance of our investment portfolio, with its attractive growth profile, it is important that we dispose of assets where either we can secure substantial uplifts or where we now expect only a limited impact on our overall growth. These decisions are made in the context of the Group's income base as a whole.

INVESTMENT ACTIVITY
CONTINUED

The volume of our sales activity in the last few years has been at fairly consistent levels. It has also seen us sell most of our isolated smaller buildings in less central locations at substantial premiums to book value. The latest of these were our holdings at Portobello Dock W10. In addition last year we sold a number of more central properties. At the Davidson Building WC2 we completed the refurbishment of a number of floors in Q4 2014. These were let at new rental levels ranging between £72.50 per sq ft and £80 per sq ft during 2015. This fresh rental evidence enabled us to achieve an attractive price for the building. Following the receipt of planning permission for a hotel and office development, we sold Wedge House SE1 to a hotel operator. The three Q1 disposals which formed part of the property swap to acquire 20 Farringdon Road were discussed in last year's report and are included in the table opposite.

Residential development forms a very small part of Group activities. In the last two years our disposals have included a number of residential trading sales relating to our small developments at Queens, Bayswater W2 and The Corner House, Fitzrovia W1. During 2015 these activities raised £23.7m, comprising 13 apartments. Since the year end we have sold the last unit at Queens and have only two apartments remaining at The Corner House. In addition we have the potential to receive an overage payment at Riverwalk House SW1, which is dependent on the scheme's final profitability.

Net investment



Principal acquisitions 2015

	Date	Area sq ft	Total cost £m	Total cost £ psf	Net yield %	Net rental income £m pa	Net rental income £ psf	Lease length Years
20 Farringdon Road EC1	Q1	170,600	92.7	545	3.5	3.2	27[1]	2
50 Oxford Street W1[2]	Q3	6,050	14.5	2,395	2.6	0.4	74	3
The White Chapel Building E1[3]	Q4	255,000	139.3	545	–	–	–	–
Total		**431,650**	**246.5**	**570**	**–**	**3.6**	**–**	**–**

[1] Excludes 26,200 sq ft ground floor offices let at a peppercorn rent.
[2] Includes 36-38 and 42-44 Hanway Street W1.
[3] Excludes 30,500 sq ft lower ground floor that completed in January 2016.

Principal commercial disposals 2015

	Date	Area sq ft	Net proceeds £m	Net proceeds £ psf	Net yield to purchaser %	Net surplus to Dec 2014 %
22 Kingsway WC2	Q1	91,400	64.1	700	4.4	(2)
Mark Square House EC2	Q1	61,700	31.9	515	4.4	0
9 and 16 Prescot Street E1 (50% interest)	Q1	53,700	18.7	350	3.2	3
Davidson Building WC2	Q4	43,100	65.4	1,520	3.9	21
Wedge House, 40 Blackfriars Road SE1	Q4	38,700	33.0	855	–	86
Portobello Dock W10	Q4	52,600	34.7	660	3.6	54
Total		**341,200**	**247.8**	**725**	**3.5**	**18.4**

"We expect to continue to recycle capital with over £100m of investment property sales planned in the current year."

JOHN BURNS
CHIEF EXECUTIVE

FINANCE REVIEW

2015 was another strong year for Derwent London with substantially improved financial results across the board and further refinancing activity too.

DAMIAN WISNIEWSKI
FINANCE DIRECTOR

Financial overview

Derwent London has reported another very strong combination of NAV and earnings growth for the year ended 31 December 2015 and, as explained below, has also taken a number of steps during the year to further strengthen its financial position and de-risk its pipeline.

Helped by the issue of shares in January 2015 in connection with our call for early redemption of the 2016 convertible bonds, the Group's net asset value (NAV) rose by £919.7m to £4.0bn through 2015, an increase substantially higher than the £705.2m recorded in 2014. After allowing for the new shares issued, diluted EPRA NAV per share was 21.6% higher than the year before, giving a total return for 2015 of 23.0% (2014: 30.1%).

The benefits of consistently good lettings and asset management over the last year or so, as well as the refinancing activity in 2015 which substantially reduced our interest charge, have been reflected in a 31.0% increase in EPRA profit before tax and a 25.0% increase in EPRA recurring earnings per share to 71.34p compared to the previous year. Backed up by a 5.2% increase in like-for-like net rents in 2015 and positive lettings continuing into 2016, this has encouraged us to raise the final dividend by 10.0% to 30.8p per share. The total dividend for the year remains well covered at 1.6 times recurring earnings.

Our financing ratios have all improved again, with the loan-to-value ratio reduced from 24.0% at December 2014 to 17.8% in December 2015 and net interest cover up from 286% in 2014 to 362% for 2015. We have also been able to reduce the average IFRS interest rate on debt from 4.22% to 3.93% at December 2015, or down from 3.78% to 3.68% on a cash basis, while paying down net debt by £101.6m during the year and usefully increasing the weighted average unexpired length of our debt facilities.

	2015	2014
EPRA NAV per share	**3,535p**	2,908p
EPRA NNNAV per share	**3,463p**	2,800p
Property portfolio at fair value	**£4,954.5m**	£4,168.1m
Gross property income	**£152.0m**	£138.4m
EPRA profit before tax	**£81.6m**	£62.3m
Profit before tax	**£779.5m**	£753.7m
Dividend per share	**43.40p**	39.65p
NAV gearing	**22.8%**	32.9%
Net interest cover ratio	**362%**	286%

Keeping to our long-established business model, the short-term project pipeline is now substantially de-risked following lettings at the White Collar Factory and The Copyright Building and, as reported elsewhere, we are seeing good enquiries for The White Chapel Building and the space which we are creating for delivery in 2019. With a further £105m of long-term financing arranged in February 2016, we have the financial confidence to comfortably build out the committed pipeline, which continues to produce a significant level of development profit, while retaining our financial ratios at attractive levels.

Net asset value growth

The overall 627p increase in EPRA NAV per share can be summarised as follows:

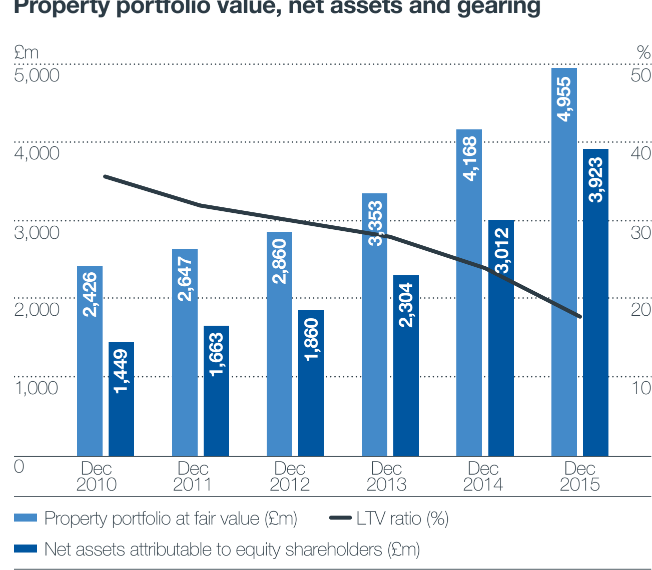
	2015 p	2014 p
Revaluation surplus	**581**	654
Profit on disposals	**39**	33
EPRA profit after tax	**71**	57
Dividends paid (net of scrip)	**(30)**	(35)
Interest rate swap termination costs	**(6)**	(2)
Dilutive effect of convertible bonds	**(17)**	(46)
Non-controlling interest	**(8)**	(10)
Other	**(3)**	(7)
	627	644

A detailed reconciliation showing adjustments from the IFRS NAV to the EPRA NAV is shown in note 37 to the financial statements.

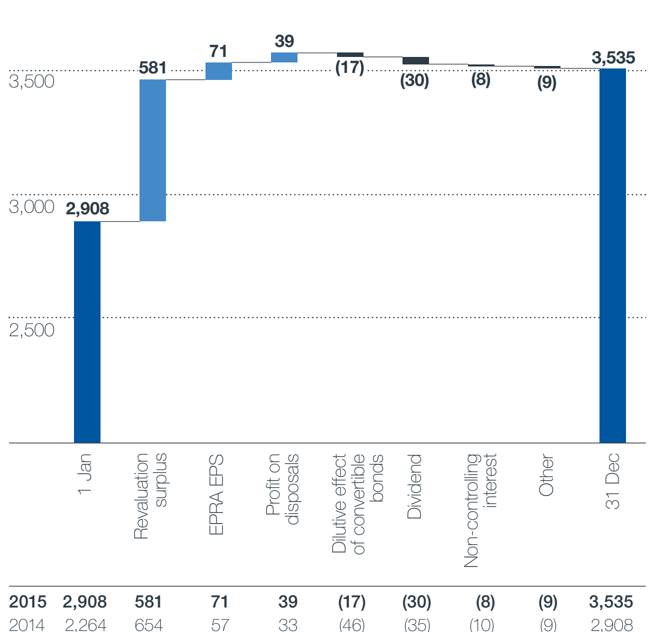
The contribution to NAV growth per share from property revaluations has fallen slightly from 2014, due partly to the larger number of shares in issue, but, at 581p per share (584p including our share of joint ventures) remained at a very high level. Of this increase, 55% came from an increase in estimated rental values adopted by our valuers, 24% from development profits and a relatively lower 21% from yield shift. We also made substantial property disposals during the year achieving 39p per share over book values and demonstrating that our valuations are underpinned by market demand. One of the properties, 9 and 16 Prescot Street, was sold into a joint venture in which the Group has a residual 50% interest. This is the main reason why the carrying value of our investments increased from £7.4m to £30.7m during the year.

As the £175m convertible bonds due in 2016 were redeemed early and converted into new shares in January 2015, there was no further dilution relating to those bonds in 2015. However, with the Group's NAV per share now over £33.35, which is the conversion price of the 2019 convertible bonds, the fully diluted EPRA NAV per share has taken into account 17p per share of dilution in 2015 in relation to the 2019 bonds. Note that the earliest date that the 2019 bonds can be converted into new shares is July 2016.

Property portfolio value, net assets and gearing



EPRA net asset value per share



	1 Jan	Revaluation surplus	EPRA EPS	Profit on disposals	Dilutive effect of convertible bonds	Dividend	Non-controlling interest	Other	31 Dec
2015	**2,908**	**581**	**71**	**39**	**(17)**	**(30)**	**(8)**	**(9)**	**3,535**
2014	2,264	654	57	33	(46)	(35)	(10)	(9)	2,908

Medium and long-term interest rates continued to move up and down with market sentiment through 2015 and into 2016. The 20 year swap, for example, varied between 1.7% and 2.5% through the course of 2015 and, since the year end, has fallen back to well under 2.0%. These are substantial relative movements but interest rates generally remain at very low levels by historical standards, helping to underpin property yields. We have continued to monitor these rates and to buy down swaps from time to time thereby managing our interest rate exposure. The mark-to-market cost of all our interest rate swaps fell from £25.2m to £17.6m through 2015, the latter figure representing less than 2% of year end net debt. Fair value exposures for our fixed rate debt and bonds also closed substantially through the year helping the EPRA triple net asset value to increase by 23.7% during the year to 3,463p per share.

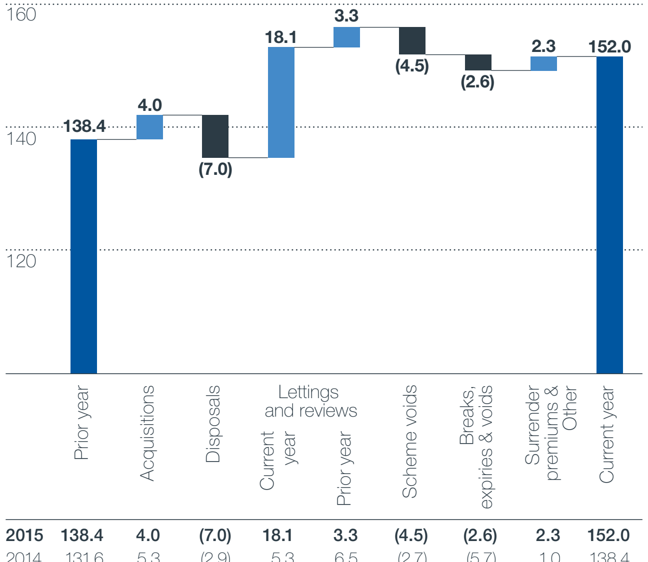
Income statement

As we progress through the current long London office property cycle, there is naturally a greater focus on income generation. Lettings from recent developments and asset management initiatives have had a tangible impact upon the Group's property income, a trend expected to continue over the next few years. Gross rental income was up by 8.5% to £148.3m and net rental income by 7.8% to £138.7m. Allowing for the profits from sales of residential apartments and other property income, net property and other income increased by £12.5m or 9.2% to £148.6m for the year.

In 2015, the increase in gross rental income came mainly from lettings and rent reviews which added £21.5m of income including £18.3m from lettings commencing in the year. Property acquisitions added another £4.0m of rental income while the disposals brought it down by £7.0m. Rent lost from lease breaks, expiries and voids was £2.6m and from schemes starting was £4.5m. An additional £2.3m came from various small premiums received and 'rights of light' settlements. The other property income of £3.7m related to compensation received from contractors for schemes at 40 Chancery Lane, Turnmill and 1-2 Stephen Street which were delivered late. The contracts were at fixed prices and the sums recognised partly offset the rent lost in 2015 due to the late completion of the projects.

Administrative expenses increased by 7.0% to just under £30.0m in 2015, due mainly to higher staff salaries and bonuses. However, finance costs were reduced considerably, by 17.0% to £35.2m, as the total amount of debt fell following the conversion of the 2016 bonds and the average interest rate on that debt was also reduced during the year. This came mainly from lower margins on our bank facilities but was also achieved by breaking or re-setting swap rates during the year at a cost of £4.0m. The positive impact of this will be felt for several years. In addition the start date on a £70m forward start swap was deferred at a cost of £2.4m. The interest capitalised in 2015 was £5.0m, a small reduction on the £5.3m in 2014 and, as before, no overheads or property costs were capitalised. Our EPRA cost ratios were almost identical to the previous year.

Gross property income



2015	**138.4**	**4.0**	**(7.0)**	**18.1**	**3.3**	**(4.5)**	**(2.6)**	**2.3**	**152.0**
2014	131.6	5.3	(2.9)	5.3	6.5	(2.7)	(5.7)	1.0	138.4

The combination of rental growth and lower finance costs drove the recurring EPRA profit before tax to £81.6m, up by 31.0% over the year. After taking account of property valuation uplifts, profits on disposals of properties and fair value movements, the overall IFRS profit for the year increased from £749.8m in 2014 to £777.2m for the year ended 31 December 2015.

Cost ratios

	2015 %	2014 %
EPRA cost ratio, incl. direct vacancy costs	24.3	24.2
EPRA cost ratio, excl. direct vacancy costs	22.3	22.9
Portfolio cost ratio, incl. direct vacancy costs	0.7	0.8

EPRA like-for-like rental income

	Properties owned throughout the year £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2015					
Gross rental income	114.9	6.4	3.5	23.5	148.3
Property expenditure	(4.5)	(0.5)	(0.8)	(3.8)	(9.6)
Net rental income	**110.4**	**5.9**	**2.7**	**19.7**	**138.7**
Profit on disposal of trading properties	–	–	3.2	–	3.2
Other[1]	2.7	–	0.6	3.4	6.7
Net property and other income	**113.1**	**5.9**	**6.5**	**23.1**	**148.6**
2014					
Gross rental income	109.4	0.4	9.7	17.2	136.7
Property expenditure	(4.5)	–	(0.7)	(2.8)	(8.0)
Net rental income	104.9	0.4	9.0	14.4	128.7
Profit on disposal of trading properties	–	–	3.9	–	3.9
Other[1]	3.4	–	–	0.1	3.5
Net property and other income	108.3	0.4	12.9	14.5	136.1
Increase based on gross rental income	**5.0%**				**8.5%**
Increase based on net rental income	**5.2%**				**7.8%**
Increase based on net property income	**4.4%**				**9.2%**

[1] Includes surrender premiums paid or received, dilapidation receipts, compensation for lost rent and other income.

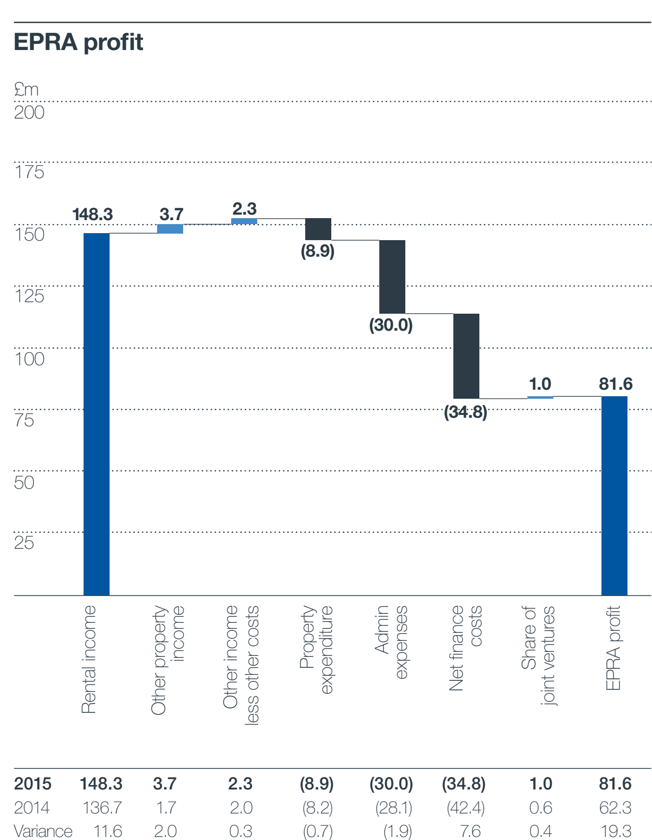
A table providing a reconciliation of the IFRS to EPRA profit before tax and earnings per share is included in note 37.

EPRA like-for-like gross rental income, which removes the impact of development activity, acquisitions and disposals, increased by 5.0% during the year with net rental income on a similar basis up by 5.2%. These figures demonstrate the gradual capture of our rental reversion as we move through the current property cycle. A full analysis is shown in the table below.

Taxation

The corporation tax charge for the year increased to £1.9m in 2015 from £0.8m in the previous year, most of this increase being due to the profits arising on the sales of residential apartments which were held as trading stock and therefore outside the REIT tax environment. The deferred tax charge for the year was lower than in 2014 at £0.4m as this took account of certain historic tax losses which were previously not recognised.

In addition, and in accordance with our status as a REIT, £4.8m of tax was withheld from shareholders on property income distributions and paid to HMRC during the year.



	Rental income	Other property income	Other income less other costs	Property expenditure	Admin expenses	Net finance costs	Share of joint ventures	EPRA profit
2015	**148.3**	**3.7**	**2.3**	**(8.9)**	**(30.0)**	**(34.8)**	**1.0**	**81.6**
2014	136.7	1.7	2.0	(8.2)	(28.1)	(42.4)	0.6	62.3
Variance	11.6	2.0	0.3	(0.7)	(1.9)	7.6	0.4	19.3

Debt facilities

	£m	£m	Maturity
6.5% secured bonds		175	March 2026
3.99% secured loan		83	October 2024
1.125% unsecured convertible bonds		150	July 2019
4.41% unsecured private placement notes		25	January 2029
4.68% unsecured private placement notes		75	January 2034
Committed bank facilities			
Term – secured	28		June 2018
Bilateral revolving credit – unsecured	75		July 2020
Club revolving credit – unsecured	550		January 2021
		653	
At 31 December 2015		**1,161**	

Refinancing to fund the pipeline

Derwent London has had another significant year of financing activity.

As noted above, the first element was the early conversion of the 2016 convertible bonds into new equity and the resultant issue of 7.88m new ordinary shares. This brought down our net debt by £170.5m and significantly reduced financial gearing while also boosting interest cover. Together with the general improvement in our financial risk profile over recent years, it also enabled Standard and Poor's to upgrade our corporate credit rating, which now stands at BBB+ with a stable outlook.

With effect from March 2015, we extended the maturity of a £40m interest rate swap from June 2017 to June 2022 thereby reducing the rate payable from 3.0% to 2.35%. This had no associated cost and extended the weighted average maturity of our swaps while also saving interest charges of £260k per annum until June 2017. In July 2015, we paid £2m to reduce the coupon on a £75m interest rate swap from 2.975% to 2.49% through to April 2020.

Then, in July 2015 we completed a new unsecured and fully revolving £75m facility with Wells Fargo. The facility has a five year term but can be extended by up to two years upon request and can also be increased in amount by up to £25m during its term. The previous £90m secured facility from the same lender, of which £70m was drawn, was repaid and cancelled at the same time. The margin under the new facility is substantially lower than previously and, at a cost of £2m, we also reduced the amount hedged under this facility from £70m to £40m and extended the swap period out to July 2022 at a new lower rate of 2.446% (previously 3.18%). This refinancing extended the weighted average maturity of our debt, lowered our annual finance costs and provided greater flexibility: the new facility is fully revolving (i.e. we can draw and repay between zero and £75m) whereas the previous facility only had a £20m revolving element and it also increased our unencumbered property assets by £390m. The financial covenants for the new facility are identical to those of our existing £550m unsecured bank facility.

The final step in 2015 was to extend the maturity of the £550m unsecured revolving bank facility from January 2020 to January 2021. There is an additional one year extension option available, subject to the usual consents.

All of these actions have helped us extend the weighted average maturity of our debt from 6.6 years at December 2014 to 7.3 years at December 2015. The average interest rate on our debt has also been reduced from 4.22% at December 2014 to 3.93% at December 2015 on an IFRS basis and from 3.78% to 3.68% on a cash basis. In addition, unencumbered property assets have increased by 36% during the year to £3.7bn.

The proportion of our debt that is fixed or swapped into fixed rates was 85% as at 31 December 2015. This excludes a £70m forward start swap which would become effective in March 2016 unless we pay to defer it.

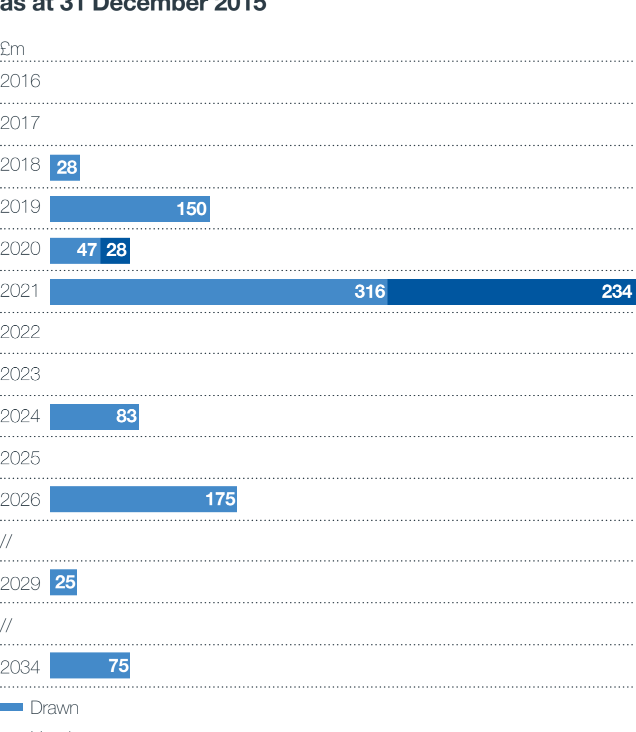
With long-term interest rates remaining at very low levels, our most recent refinancing activity has been to increase the Group's long-term fixed rate unsecured debt by accessing the US private placement market for the second time. In February 2016, we agreed to issue £30m of new 3.46% senior notes expiring in May 2028 and £75m of new 3.57% senior notes expiring in May 2031. The £105m funds will be drawn in May 2016 from three new institutional relationships and have identical financial covenants to both our existing unsecured bank facilities and the private placement notes issued in January 2014. Together with the planned property disposals in 2016, this will increase our financial firepower further from the £269.0m of undrawn facilities and cash at 31 December 2015 and will also further extend the weighted average maturity of our debt.

Net debt and cash flow

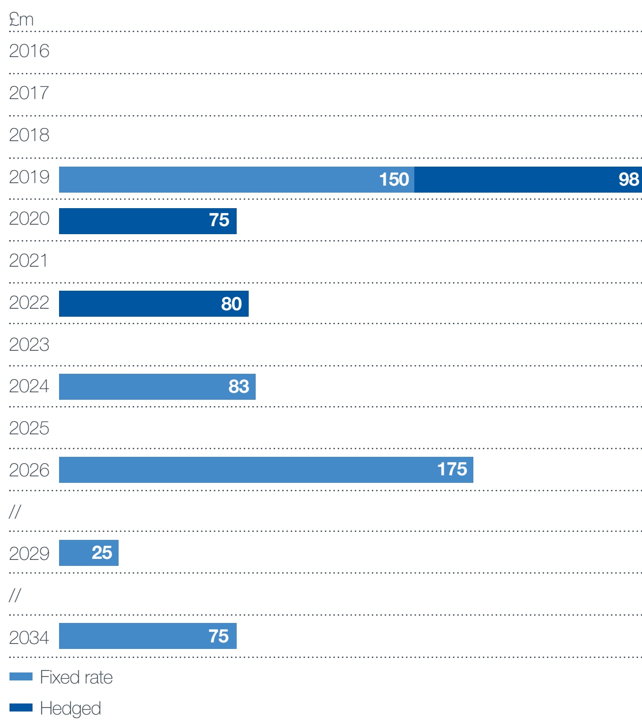
Net debt was reduced significantly during the year to £911.7m from £1,013.3m, taking the loan-to-value ratio down to 17.8% and NAV gearing to 22.8%. These are now at the lower end of our target range but are only expected to grow modestly through the next few years. Net proceeds from the sale of properties during the year totalled £277.2m; this sum exceeded properties acquired by £31.0m so we have been net sellers of property for the fifth year in a row before taking account of capital expenditure. Cash flows invested in our projects during the year increased to £116.4m but were more than covered by the deleveraging impact of the early redemption of the 2016 convertible bonds.

As planned, the net cash from operations has increased significantly again, to £76.0m for the year from £65.6m in 2014. Most of this increase comes directly from higher property income receipts. This has helped us to grow interest cover again, a particularly important metric that the Group uses in its business planning. From 286% in 2014, this rose to 362% for the year ended 31 December 2015, calculated on the net basis as set out in note 39.

Maturity profile of debt facilities as at 31 December 2015



Maturity profile of fixed rates and swaps as at 31 December 2015



£75m

new revolving unsecured bank facility added in 2015

£105m

new unsecured 12 and 15 year private placement funding arranged in February 2016

FINANCE REVIEW
CONTINUED

Net debt

	2015 £m	2014 £m
Cash	**(6.5)**	(14.8)
Bank facilities	**390.5**	347.0
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	**15.0**	16.0
4.41% unsecured private placement notes 2029	**25.0**	25.0
4.68% unsecured private placement notes 2034	**75.0**	75.0
2.75% unsecured convertible bonds 2016	**–**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Equity components and unwinding of discounts on convertible bonds	**(7.7)**	(12.9)
Leasehold liabilities	**23.2**	8.3
Unamortised issue and arrangement costs	**(10.8)**	(13.3)
Net debt	**911.7**	1,013.3

Gearing and interest cover ratio

	2015 %	2014 %
Loan-to-value ratio	**17.8**	24.0
NAV gearing	**22.8**	32.9
Net interest cover ratio	**362**	286

Dividend

With the step up in recurring earnings in 2015, the Board has recommended a 10.0% increase in the proposed final dividend to 30.80p per share for payment to shareholders in June 2016. All 30.80p will be paid as a PID. The total dividend for the year will be 43.40p per share, an increase of 3.75p or 9.5% over last year. As before, we will be offering a scrip dividend alternative though this will be reviewed later in the year depending upon equity market conditions.

Our financial outlook

With low financial gearing, enhanced interest cover, substantial recent pre-lets to de-risk the pipeline and additional financial headroom, we are well placed to build out our current committed programme of projects and thereby crystallise anticipated development profits over the next few years. Recurring earnings growth has also accelerated in 2015 and, with substantial rental reversion in a portfolio with low average rents, should continue to increase as we move through this property cycle.

Our consistent and focused business model is based on the fundamental balancing of the portfolio between income and value growth while retaining a conservative level of financial risk. The portfolio remains full of opportunities for many years to come but, with low passing rents, also offers many defensive qualities should the current global economic uncertainty bring a more challenging occupational environment for London's office landlords. At the moment, conditions remain favourable for us and, with limited new space being built in our markets and low interest rates supporting tight property yields, we aim to continue delivering and de-risking our committed projects over the next year while also continuing to capture rental reversion and grow earnings.

Debt summary

	2015 £m	2014 £m
Bank loans		
Floating rate	**137.5**	64.0
Swapped	**253.0**	283.0
	390.5	347.0
Non-bank debt		
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
2.75% unsecured convertible bonds 2016	**–**	175.0
1.125% unsecured convertible bonds 2019	**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
Total	**898.5**	1,030.0
Hedging profile (%)		
Fixed	**57**	66
Swaps	**28**	28
	85	94
Percentage of debt that is unsecured (%)	**68**	65
Percentage of non-bank debt (%)	**57**	66
Weighted average interest rate – cash basis (%)	**3.68**	3.78
Weighted average interest rate – IFRS basis (%)	**3.93**	4.22
Weighted average maturity of facilities (years)	**6.8**	6.2
Weighted average maturity of borrowings (years)	**7.3**	6.6
Undrawn facilities	**262**	321
Uncharged properties	**3,709**	2,718

“We continue to balance our portfolio thereby providing strong total returns from a combination of recurring income and value creation.”

DAMIAN WISNIEWSKI
FINANCE DIRECTOR

SUSTAINABILITY

2015 has been another busy and successful year for our business, and this is reflected in our sustainability work, which continues to go from strength-to-strength.

JOHN DAVIES
HEAD OF SUSTAINABILITY

PAUL WILLIAMS
EXECUTIVE DIRECTOR FOR SUSTAINABILITY

A key priority for 2015 has been to build on our refreshed sustainability approach, which we launched at the beginning of 2014. This saw us develop a new sustainability framework for our managed properties complemented with a new building sustainability plan process, designed to help us achieve our tough resource efficiency performance targets across our managed portfolio.

Another significant step forward in 2015 saw us decide to strengthen our overall sustainability reporting approach, and align our annual reporting to the requirements of the Global Reporting Initiative (GRI). As part of this move, we undertook another, broader materiality assessment of our business, highlighting the significant sustainability issues that pertain to our business. A summary of this is presented in our annual sustainability report.

As with previous years, our hard work has yet again been recognised externally, garnering recognition in a number of indices and awards. We received a gold award for our annual sustainability report in the EPRA Reporting Awards – our third successive year. Likewise, we retained our Green Star status for the fourth year in a row in the Global Real Estate Sustainability Benchmark (GRESB). In addition, we improved our CDP disclosure rating by four points to 92, also winning an award for the biggest relative reduction in carbon emissions at the 2015 UK CDP awards.

Our community fund continues to support organisations across Fitzrovia with over £66,000 shared amongst five projects during 2015. Now in its third year, the fund has supported 17 projects with well over £200,000 invested so far. We are continuing to provide funding in the Fitzrovia area, with a further £150,000 added to the fund to be invested over a three year period. In addition, we also announced that the focus of the fund would expand to cover our Tech Belt portfolio. Like the Fitzrovia extension, we will be making £150,000 available for this area to support a range of projects and initiatives.

We hope the summary presented here gives you a sense of our progress and achievements made during 2015. However, please do take a look our 2015 annual sustainability report at www.derwentlondon.com/sustainability, where we set out a comprehensive review of our work, together with our full suite of sustainability datasets and measurement indicators.

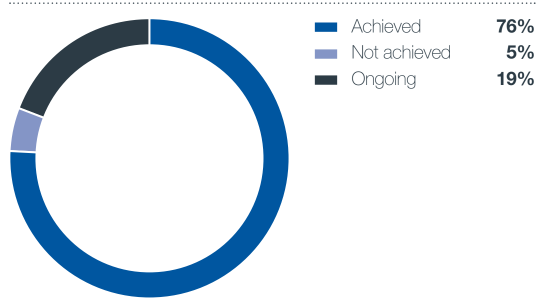
> "2015 has seen us again make significant steps in developing our sustainability agenda."

Our performance

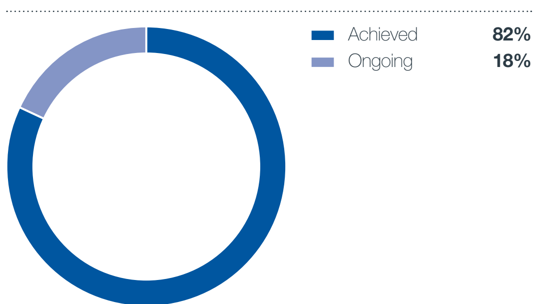
For 2015, we re-focused our approach to setting our performance targets. We introduced a number of longer-term stretch targets, which are simultaneously challenging us whilst helping to demonstrate continuous improvement to our stakeholders. Moreover, we also created a set of internal KPI's based on some of our previous year's targets, which are designed to ensure we maintain our high standards and performance on a day-to-day basis.

As mentioned in our report last year we wanted to show performance against both these sets of measures to give a greater sense of perspective and understanding of our performance. Therefore, we have set out a breakdown of our performance in each set of targets below.

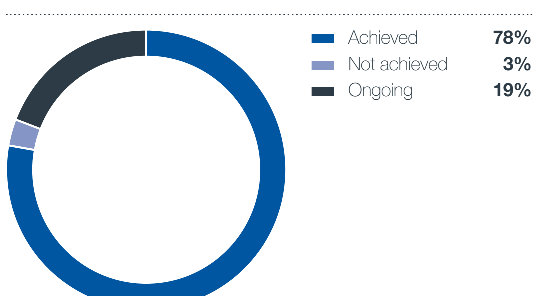
Looking at our external facing targets, we achieved 78% of our 2015 targets compared to 97% in 2014. This represents a small decrease compared to 2014, which is due to us introducing a number of stretch targets at the beginning of 2015, which will be measured in the coming years.



Moreover, we achieved 82% of our internal KPIs.



Combining both these sets of measures, we achieved 78% of our performance measures, which demonstrates the commitment and hard work of our teams.



2015 PERFORMANCE HIGHLIGHTS

Resource efficiency

10.5%
reduction in carbon in our like-for-like portfolio

6%
increase in our recycling rate from 62% to 68%

3.2%
reduction in energy use (electricity, gas, oil and biomass) in our like-for-like portfolio

Communities

£245,000
awarded to date to projects in Fitzrovia from the Community Fund

£2.2m
community contributions via planning

AWARDS AND RECOGNITION

EPRA Sustainability Reporting Awards 2015
- Gold Award for our 2014 Annual Sustainability Report

GRESB (Global Real Estate Sustainability Benchmark) 2015
- Green Star status retained for the fourth year in succession – with top quartile performances

CDP 2015
- Disclosure Rating score of 92
- Award for the biggest relative reduction in emissions for our carbon management work at the 2015 UK CDP Awards

OUR PEOPLE

Our HR strategy, which is fundamental to the Group achieving its strategic objectives, aims to attract, support, retain and develop talented employees.

116
Number of employees

90%
Employee retention rate for 2015

239
Volunteering hours

£53,500
Training spend for 2015

"The working environment is progressive and challenging which keeps working life interesting and engaging."

KATY LEVINE
HEAD OF HUMAN RESOURCES

Employee engagement

Our employees are a key component of our business. In order to understand their views we conducted our first employee survey in 2015. 100% of respondents agreed they were 'proud to work for Derwent London' and that 'it is a great place to work'. 96% of respondents felt 'satisfied with their job' and 81% saw 'their long-term career' with the Company. The most suggested improvement was to the office facilities and the Board believe this will be delivered by the current office refurbishment. A steering group is being created to address other suggested changes, which include more flexible working and better inter-departmental communication.

The positive responses demonstrate that we have a highly committed, loyal and engaged workforce, and explain why the staff retention rate is very high at 90%.

Our culture

'Professional,' 'Progressive' and 'Passionate' were the top three words used by our employees to describe Derwent London's culture, followed by 'Creative' and 'Focused.' These, together with integrity, a consultative leadership style and commerciality, are key to the Group's performance and define what we stand for and how we behave with our stakeholders.

We believe we have a duty to take appropriate measures to identify and remedy any malpractice either within the Group or elsewhere that affects us. We also expect all employees to maintain high standards of behaviour, as set out in our Employee Handbook and Company policies, which are updated regularly. We also encourage our staff to report any wrongdoing that falls short of those standards. Our Whistleblowing Policy enables them to do this and ensures their concerns are investigated and appropriate action is taken. To date, no calls (internally or externally) have been made to the helpline.

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

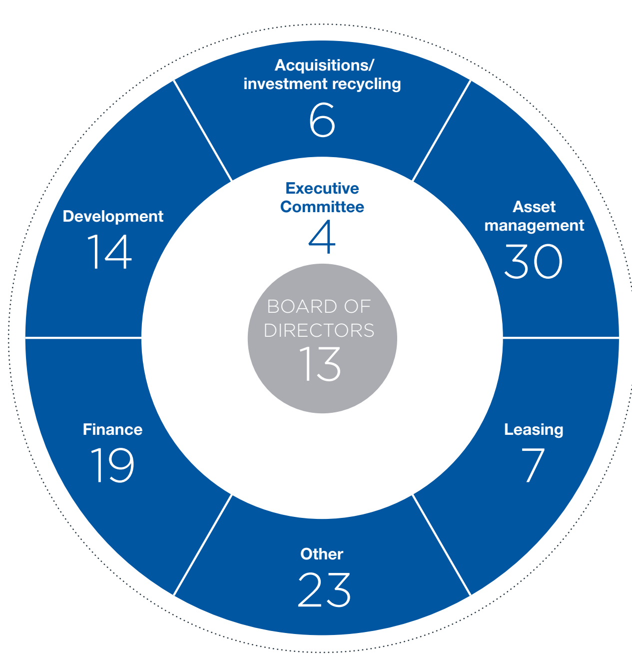
Our structure

We have five core teams that are supported by a number of other departments. We operate with a flat organisational structure which allows and encourages collaboration. In order to deliver our strategy, we recognise individual strengths and work flexibly, which gives us the ability to handle complex challenges, make quick decisions and deliver effectively.

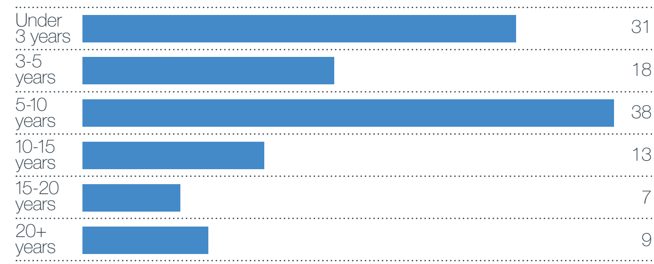
Our organisational structure is reviewed on a regular basis. When opportunities arise, we look to fill any management positions by internal promotions wherever possible. Not only does this enable us to retain our most valued and talented employees, it also strengthens the levels of management below the Board.

The fact that 25% of employees have more than ten years' service is testament to our high staff retention and ensures that we have continuity. This is balanced by the growth in the business which has seen 42% of our employees recruited in the last five years, bringing with them new ideas, skills and experience.

Organisational structure

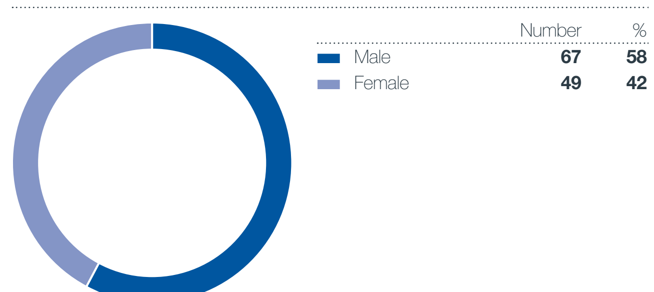


Length of service



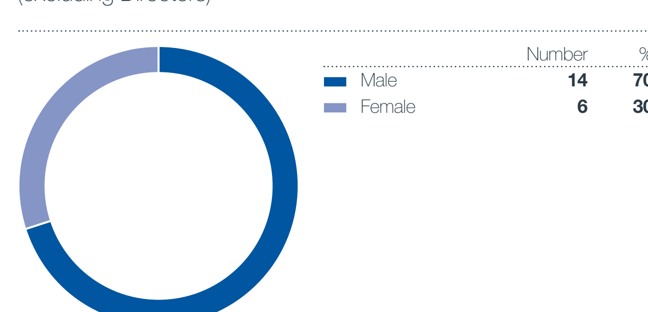
OUR PEOPLE
CONTINUED

All employees



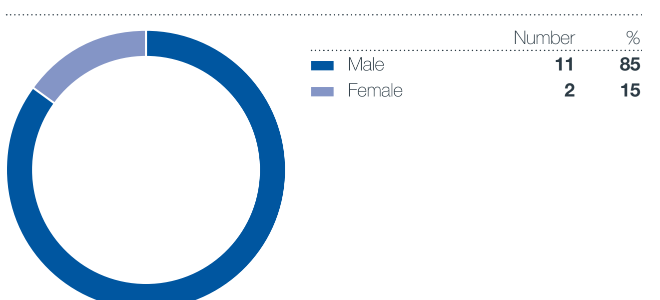
	Number	%
Male	67	58
Female	49	42

Senior management
(excluding Directors)



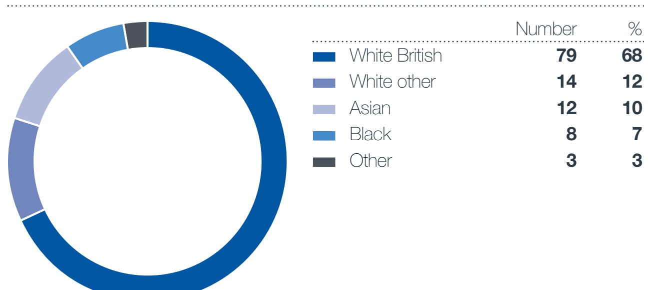
	Number	%
Male	14	70
Female	6	30

Board



	Number	%
Male	11	85
Female	2	15

Ethnic origin split



	Number	%
White British	79	68
White other	14	12
Asian	12	10
Black	8	7
Other	3	3

Equal opportunities and diversity

We are an inclusive employer, which encourages creativity and provides a balanced environment for all our employees. The Group has a strong commitment to ensuring equality and diversity in all its forms and we support the Core Conventions of the International Labour Organisation. We give full and fair consideration to all employment applicants and our policies, practices and procedures for recruitment, training, reward and career progression are based purely on merit.

For these reasons, we have had no discrimination claims to date and have a relatively balanced workforce of 58% male and 42% female, while within our senior management team 30% are female. In addition 80% of our employees classify themselves as white and 20% as non-white.

We are also committed to diversity at Board level. This year we appointed two new non-executive Directors, Cilla Snowball and Claudia Arney, who bring a wealth of experience to the Board.

During the year, we signed up to the Property Week Diversity Charter and pledged our commitment to adopt and continually improve against the six principles of the Inclusive Employer Quality Mark launched by RICS (see opposite). During 2016 we will be updating our website to highlight our approach to equal opportunities and diversity.

Training and development

We recognise the importance of career development and progression to our employees and how these can support our succession plans which are fundamental to the future growth and stability of the business. We hold six-monthly reviews and regular open discussions to highlight any training requirements, future objectives and aspirations. All appraising managers have received training on coaching skills which ensures a consistent approach.

We continued to offer a range of other internal and external personal development opportunities. For example, we ran two induction programmes for our new joiners, two Building Manager conferences and four internal technical workshops with the aim of sharing knowledge across the business. In addition, we invested £53,500 in staff training, professional qualifications and 1-1 coaching.

In 2015, our department heads received 360-degree feedback which identified areas for personal development. A 'Managing Upwards' training session was held for those in non-management positions, with the aim of enabling them to communicate with management confidently so as to reinforce our consultative leadership style.

Community and volunteering

During the year we continued to provide support to charitable organisations, both financially and through mentoring programmes, a careers workshop, apprenticeships, and through our internal volunteering programme. This encourages every employee to take one day per year to work with a charity they feel passionate about, or be involved with an initiative arising from our Community Investment Fund. During the year 36% of employees participated, spending a total of 239 hours volunteering across a range of projects.

Last year our first apprentice, Maruf Miah, won the 'Outstanding Achievement by an Apprentice' at the City Gateway awards. Since then Maruf has been offered a permanent position with us in the role of Building Manager and we also have a second apprentice at our Stephen Street building.

Please refer to our Sustainability Report 2015 to read our interview with Maruf and for more information on our community initiatives.

Reward and recognition

To achieve our strategic objectives we need to attract, nurture and retain our talent. Our approach is to reward people based on individual performance and their contribution to the performance of the Group. Annual salary increases and bonuses are linked to an overall performance rating which is allocated through our appraisal system. We were pleased to note that 86% of the survey respondents agree that their 'effort is recognised and appreciated'.

The success of our efforts has again been recognised externally through Management Today's peer assessed annual awards where we came third overall in Britain's Most Admired Companies (up from ninth place in 2014) and, for the sixth successive year, placed first in the property sector.

In order to continue to be seen as an Employer of Choice and maintain our high level of employee retention, we aim to provide market competitive remuneration and a comprehensive benefit package. This includes a non-contributory pension scheme, share options, discretionary bonus scheme, maternity and paternity provision, life insurance cover, private healthcare, a healthcare plan, season ticket loan and access to salary sacrifice schemes which include childcare vouchers and a cycle to work scheme.

The six principles of the RICS' Inclusive Employer Quality Mark:

- Leadership and vision – demonstrable commitment at the highest level to increasing the diversity of the workforce;
- Recruitment – engage and attract new people to the industry from under-represented groups; best practice recruitment methods;
- Staff development – training and promotion policies that offer equal access to career progression to all members of the workforce;
- Staff retention – flexible working arrangements and adaptive working practices that provide opportunities for all to perform at their highest levels;
- Staff engagement – an inclusive culture where all staff engage with developing, delivering, monitoring and assessing the diversity and inclusivity policies;
- Continuous improvement – continually refreshing and renewing the firm's commitment to being the best employer; and sharing and learning from best practice across the industry.

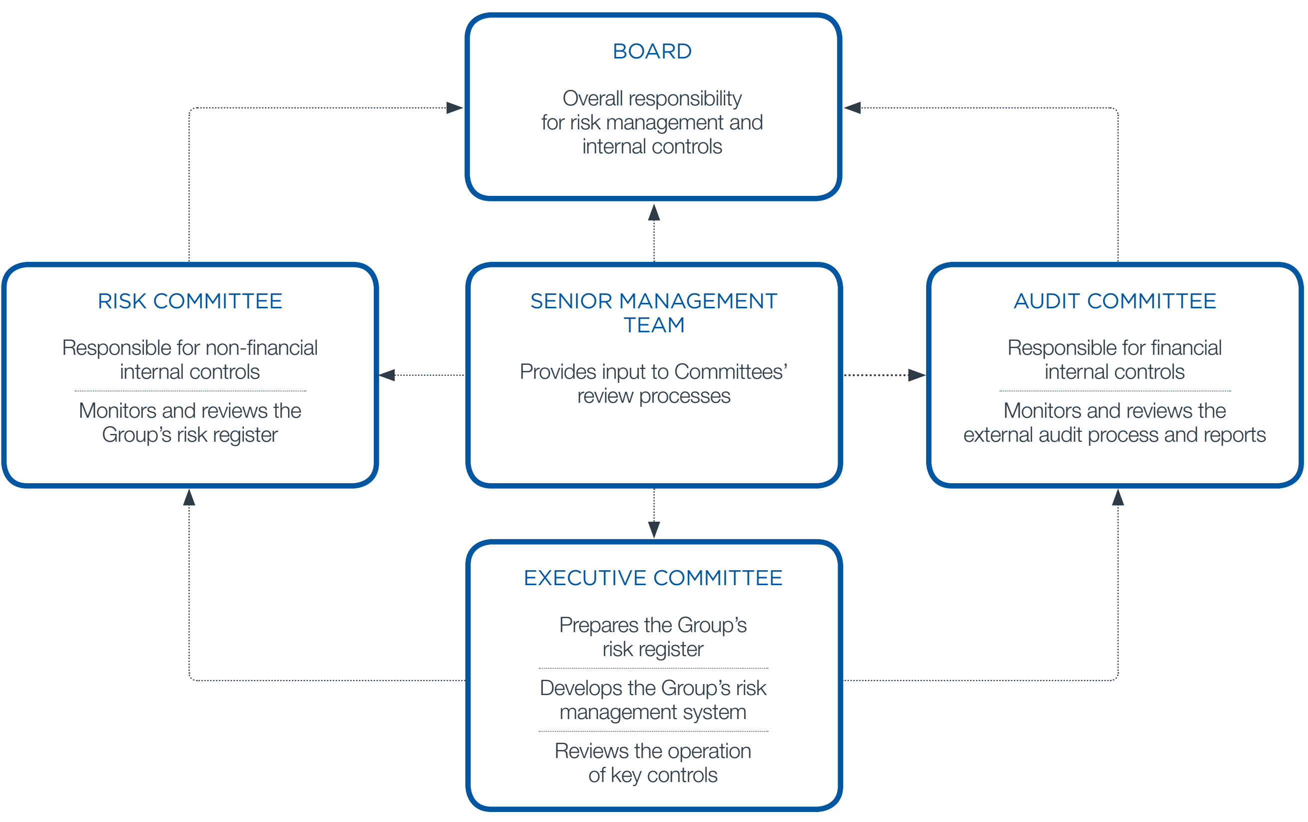
"We recognise and reward the valuable contribution made by our employees to the success of the Company."

RISK MANAGEMENT

Derwent London aims to deliver above average long-term returns to shareholders whilst operating in accordance with the Group's risk appetite. The Board uses the Group's risk management system to ensure that risks to the Group's strategy are identified, understood and managed, recognising that such risks are inherent in running any business.

RISK ORGANISATIONAL STRUCTURE

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



Risk management and culture

The Board is responsible for managing the Group's risk profile in an environment that reflects the culture and organisation of the business. Key matters to note in this regard are:

- Senior management encourages an open and transparent culture throughout the business.
- The close day-to-day involvement of the Directors in the business allows any system weaknesses to be identified quickly.
- The Group mainly operates out of a single office in central London which is within close proximity to most of its properties.
- The senior management team is experienced and stable and overall staff turnover is low. See page 68 for more information on 'Our People'.
- The Group has a Whistleblowing Policy which is supported by an independent advice line.

The Group's risk management framework was prepared within the context of this operating environment and consists of its Risk Appetite Statement, a Risk Management Policy document and a Risk Management Process document. The Board's approach to risk management recognises that not all risk can be eliminated at an acceptable cost and that there are some risks that, given its experience, the Board will choose to accept.

The Risk Register, which is prepared by the Executive Committee, is the core element of the Group's risk management process. The first stage in its preparation is for the Committee to identify the risks facing the Group. An assessment is then made collectively by the Committee of the following matters:

- The likelihood of each risk occurring.
- The potential impact of the risk on each different aspect of the business.
- The strength of the controls operating over the risk.

This approach allows the final assessment to reflect the effect of the controls and any mitigating procedures that are in place.

The Register and its method of preparation have been reviewed by the Risk Committee. In order to gain a more comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee periodically receives presentations from senior managers. Further information on the work of the Risk Committee can be found on page 114.

Code Provision C.2.3. of the 2014 version of the UK Corporate Governance Code requires the Board to monitor the Company's risk management and internal control systems. To comply with this requirement, the Executive Committee undertook an interim review of the Risk Register and the operation of the Group's key controls in August 2015. In addition the Risk Committee considered the adequacy of the controls operating over the top nine risks facing the Group to supplement its annual review of the Risk Register and controls.

Following these extra processes, the Board is satisfied that the Group's risk management and internal control systems operated effectively throughout the period.

For 2016 the Group intends to introduce a set of key risk indicators to enhance its assessment of the operation of the key controls.

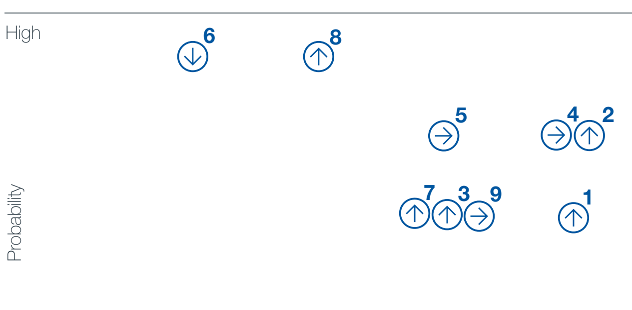
The Group's Risk Register includes 44 risks split between strategic risks, operational risks and finance risks. The principal risks and uncertainties facing the Group in 2016 include one new risk namely the risk of default by a contractor or sub-contractor. Three key risks from 2015 are no longer included in the list. These are:

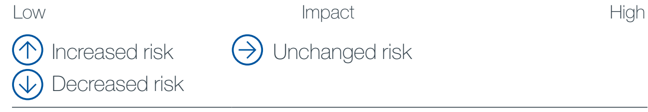
- Shortage of future development opportunities.
- Inefficient systems.
- Tenant default.

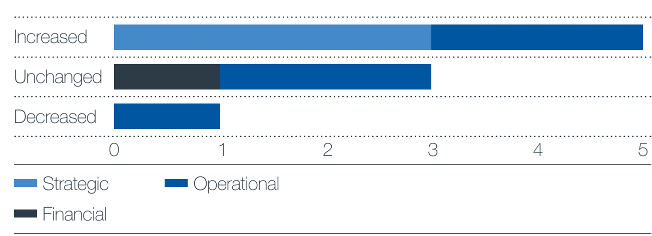
As shown by the Average risk by category graph below, the average weighted risk score is lower in 2015 than in 2014. The Board has considered whether this is a reasonable change and concluded that it reflects three main factors:

- As the Group's net asset value has increased, it becomes inherently more resilient to the financial effect of a number of risks that in the past would have represented a higher impact to the Group.
- As the Group's rental income increases and its portfolio of tenants becomes more diverse, the risk presented by any one tenant defaulting is reduced.
- During 2015 some controls and mitigating measures relating to key risks were revised and improved so reducing the risk weighting of those particular risks.

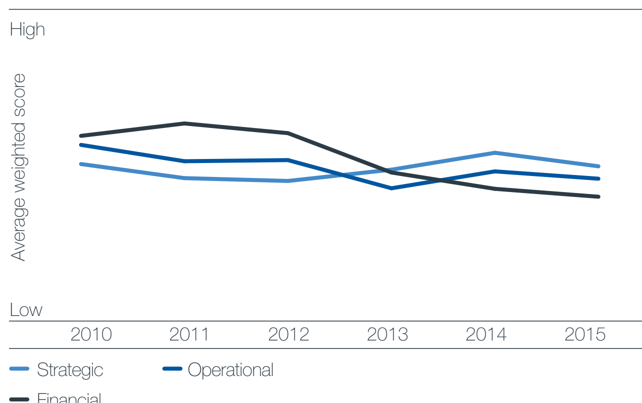
2015 major risks







Average risk by category



The principal risks and uncertainties facing the Group in 2016 are set out on the following pages together with the potential effects, controls and mitigating factors.

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

Risk, effect and progression

1. Inconsistent strategy
The Group's strategy is inconsistent with the state of its market.

2. Inconsistent development programme
The Group's development programme is not consistent with the economic cycle.

Both these risks would affect the Group's ability to deliver all of its strategic objectives.

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 such as uncertainty caused by Brexit (the referendum on the UK's continuing membership of the EU), the effect of the Chinese economic slowdown or London losing its 'Safe Haven' status. This would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – total return and total property return.

The Board sees the level of both these risks to have slightly increased since last year.

Controls and mitigation

- 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 sensitivity of the Group's KPIs and key ratios to changes in the main assumptions underlying the forecast thereby modelling different economic scenarios.
- The Group's plans can then be set so as to best realise its long-term strategic goals given the most likely economic and market conditions and the Group's risk appetite. 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 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.
- Pre-lets are sought to de-risk major projects.

Action

- The last annual strategic review was carried out by the Board in June 2015. 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.
- Approximately 50% of the Group's portfolio has been identified for future redevelopment.
- During the year the Group's loan-to-value ratio fell from 24% to below 18%, its net interest cover ratio was above 360% and the REIT ratios were comfortably met.
- Pre-lets were secured over 240,250 sq ft during 2015.

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3. Reputational damage
The Group's reputation is damaged through unauthorised and inaccurate media coverage.

This risk would impact on the Group's delivery of three of its strategic objectives.

It 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 has increased slightly over the year.

Controls and mitigation

- 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.

Action

- 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.

Link to business model

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

Key

- Risk increase
- Risk unchanged
- Risk decrease

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
4. Increase in property yields Increases in interest rates can lead to higher property yields which would cause property values to fall. This risk would impact on the delivery of three of its strategic objectives. It would affect the following KPIs: - Loan-to-value ratio. - Total return. - Total property return. Interest rates have remained low for an extended period of time and yields have decreased further 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. The risk was assessed as high last year and the Board considers it to have remained at a similar level this year. 	- The impact of yield changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved. - The impact of yield changes is considered when potential projects are appraised. - The Group's move towards mainly unsecured financing over the last few years has made management of its financial covenants less complicated.	- The Group produces three rolling forecasts each year which contain detailed sensitivity analyses including the effect of changes to yields. - Quarterly management accounts report the Group's performance against covenants. - Project appraisals are regularly reviewed and updated in order to monitor the effect of yield changes.

Operational risks

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

Risk, effect and progression	Controls and mitigation	Action
5. 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. - Increased construction costs. - Adverse letting conditions. This would have an effect on the Group's total return and total property return KPIs. The risk would affect delivery of one of the Group's strategic objectives. The Board considers this risk to have remained broadly the same over the last year. 	- Standardised appraisals including contingencies and inflationary cost increases 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. - Development costs are benchmarked to ensure that the Group obtains competitive pricing. - 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's cost committee meets on a weekly basis to consider new budget requests or amendments. - Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures can be identified and implemented. - Alternative procurement methods are evaluated as a way of minimising the impact of increased construction costs.	- The Group is advised by leading planning consultants and has considerable in-house planning expertise. One major planning consent was received in the year. - Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local planning issues. - The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. - The Group's style of accommodation remains in demand as evidenced by the 79 lettings achieved in 2015 which totalled 523,800 sq ft. - The Group has often secured significant pre-lets of the space in its development programme which significantly 'de-risks' those projects. 33 pre-lets were secured in 2015 over 240,250 sq ft.

Operational risks (continued).

Risk, effect and progression	Controls and mitigation	Action
6. Business interruption The Group is either the victim of a cyber attack or suffers a 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. The risk would affect the delivery of all the Group's strategic objectives. Due to the heightened assessment of this risk in 2014 a number of improvements have been made to the controls and mitigating factors during 2015 and as a consequence the Board considers the risk to have reduced over the year. 	- The Group's IT systems are protected by anti-virus software and firewalls which are continually updated. - The Group's data is regularly backed up and replicated. - The Group's Business Continuity Plan was revised during 2015 and successfully tested in November. - Multifactor authentication has been introduced for both internal and external access to the systems. - The Group's IT department has access to cyber threat intelligence and analytics data. - Incident response and remediation policies are in place. - Cyber insurance is being evaluated.	- Independent internal and external penetration tests are regularly conducted to assess the effectiveness of the Group's security. No matters were raised as a result of the 2015 test. - Staff awareness programmes are delivered to alert staff to the techniques that may be used to gain unauthorised access to the Group's systems. - Security measures are regularly reviewed by the IT steering group. - The Head of IT regularly reports to the Executive Committee. - An independent benchmarking review of the Group's cyber security has been carried out.
7. 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. It would impact on the delivery of three of the Group's strategic objectives. The risk has increased marginally due to the increased scale of the Group's development activity and the associated increase in Health and Safety risks. 	- Each year the Group's Risk Committee receives a report prepared by the Group's lawyers identifying legislative/regulatory changes expected over the next 12 months and reports to the Board concerning regulatory risk. - The Group employs a Head of Health and Safety who reports to the Board. - The Group employs a Head of Sustainability who reports to the sustainability committee which is chaired by Paul Williams. - The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. - Members of staff attend external briefings in order to remain cognizant of regulatory changes.	- A Health and Safety report is presented at all Executive Committee and main Board meetings. - The Executive Committee receives regular reports from the Head of Sustainability. - 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. No incidents were reported under the policy in 2015. - The Group has reviewed the requirements of the Modern Slavery Act and revised its policies where appropriate in preparation for reporting in compliance with the legislation next year. - CDM 2015 regulations have been implemented.
8. Contractor/sub-contractor default Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major sub-contractor defaulting during the project. This would primarily affect the Group's total property return KPI. The risk would affect the Group's delivery of one of its strategic objectives. It is considered to have increased over the year as the construction industry has become more stretched.	- Whenever possible the Group uses contractors/sub-contractors that it has worked with successfully previously. - The resilience of a project's critical path is increased by establishing procedures to manage any sub-contractor default effectively. - Key construction packages are acquired early in the project. - Performance bonds are sought if considered necessary.	- As the size of the Group's projects has increased so the contractors have become more substantial. - The financial accounts of both main contractors and major sub-contractors are reviewed.

Risk, effect and progression	Controls and mitigation	Action
9. Shortage of key staff The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills. This risk could impact on any or all of the Group's KPIs. It would reduce the Group's ability to deliver all of its strategic objectives. The risk is seen to be unchanged over the year. →	■ The Nominations Committee consider succession matters as a standing agenda item. ■ Requirements for senior management succession are considered as part of the five-year strategic review. ■ The remuneration packages of all employees are benchmarked regularly. ■ Six-monthly appraisals identify training requirements which are fulfilled over the next six months.	■ The Group recruited 15 new members of staff during 2015. ■ Staff turnover during 2015 was low at 10%. ■ The average length of employment is 7.7 years.

Link to business model

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

Key

Risk increase

Risk unchanged

Risk decrease

Viability statement

In accordance with provision C.2.2 of the 2014 Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision (see page 92). The Board conducted this review for a period of five years, which was selected for the following reasons:

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

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

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

The five year strategic review considers the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this analysis is carried out to evaluate the potential impact if those of the Group's principal risks that most directly affect its solvency or liquidity actually occurred. The Board also reviewed certain assumptions in the five year review concerning the normal level of capital recycling likely to occur and, in the light of recent refinancing activity which extended the duration and quantum of the Group's loans, considered whether additional financing facilities could be required.

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

1-2 Stephen Street W1

2 GOVERNANCE

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At Derwent London, we have always appreciated the importance of setting the tone from the top and have strived to promote a collegiate, honest and open culture throughout the business.

9.5%
Dividend per share growth

23.0%
Total return

BOARD OF DIRECTORS

1. ROBERT A. RAYNE, 67
NON-EXECUTIVE CHAIRMAN

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

2. JOHN D. BURNS, 71
CHIEF EXECUTIVE OFFICER

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

3. DAMIAN M.A. WISNIEWSKI, 54
FINANCE DIRECTOR

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

4. SIMON P. SILVER, 65
EXECUTIVE DIRECTOR

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

5. PAUL M. WILLIAMS, 55
EXECUTIVE DIRECTOR

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

6. NIGEL Q. GEORGE, 52
EXECUTIVE DIRECTOR

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

7. DAVID G. SILVERMAN, 46
EXECUTIVE DIRECTOR

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

8. STUART A. CORBYN, 71
NON-EXECUTIVE DIRECTOR

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

9. RICHARD D.C. DAKIN, 52
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2013.
Skills and expertise: Richard has been Managing Director of Capital Advisors Limited, part of CBRE since 2014. Previously, he had been employed at Lloyds Bank since 1982 where he undertook a variety of roles including commercial and corporate banking and leveraged finance, gaining extensive knowledge of property finance and the real estate sector.
Other current appointments: Fellow of the Royal Institution of Chartered Surveyors and an Associate Member of Corporate Treasurers.
Committees: Risk (chairman), Audit, Nominations.

12. SIMON W.D. FRASER, 52
SENIOR INDEPENDENT DIRECTOR

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

10. CLAUDIA I. ARNEY, 45
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2015.
Skills and expertise: Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.
Other current appointments: Chair of the Remuneration Committee of Halfords PLC, a non-executive Director of the Premier League and Aviva plc and on the Advisory Board of the Shareholder Executive.
Committees: Remuneration and Audit.

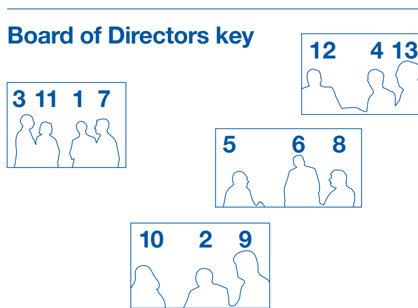
11. CILLA D. SNOWBALL, 57
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2015.
Skills and expertise: Cilla is Group Chairman and Group CEO at AMV BBDO and a past Chairman of the Advertising Association.
Other current appointments: Director BBDO Worldwide, Comic Relief Trustee and member of the Women's Business Council.
Committees: Nomination and Risk.

13. STEPHEN G. YOUNG, 60
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2010.
Skills and expertise: Stephen is a chartered management accountant and Chief Executive of Meggitt PLC. Previously he has held a number of senior financial positions including Group Finance Director at Meggitt PLC, Thistle Hotels plc and the Automobile Association.
Other current appointments: None.
Committees: Audit (chairman), Risk, Remuneration.

Board of Directors key



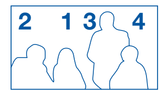
SENIOR MANAGEMENT

EXECUTIVE COMMITTEE

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

1. CELINE THOMPSON
   HEAD OF LEASING
2. RICHARD BALDWIN
   HEAD OF DEVELOPMENT
3. SIMON TAYLOR
   HEAD OF ASSET MANAGEMENT
4. TIM KITE
   COMPANY SECRETARY

Executive Committee key



SENIOR MANAGEMENT

1. DAVID WESTGATE
   HEAD OF TAX
2. JOHN DAVIES
   HEAD OF SUSTAINABILITY
3. KATY LEVINE
   HEAD OF HUMAN RESOURCES
4. MARK MURRAY
   HEAD OF INFORMATION TECHNOLOGY
5. QUENTIN FREEMAN
   HEAD OF INVESTOR AND CORPORATE COMMUNICATIONS
6. RICK MEAKIN
   GROUP FINANCIAL CONTROLLER

Senior management team key

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Annual Report on remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 and the Group and enable them to ensure that the financial statements and the Annual Report on remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 a company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 80 and 81 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board.

JOHN D. BURNS,
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI,
FINANCE DIRECTOR

25 FEBRUARY 2016

White Collar Factory EC1

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board I am again pleased to introduce the Group's Corporate Governance report.

In terms of regulation, the Company is subject to the provisions of the UK Corporate Governance Code (the 'Code'), which was last updated in September 2014, and I am pleased to report that the Company has applied the main and supporting principles of the Code, and has complied with all provisions. The Company's position regarding the independence of Stuart Corbyn, is discussed on page 86.

However, in addition to the regulations represented by the Code, it is increasingly being questioned whether compliance with the Code is sufficient to ensure a viable and sustainable business. This revised perspective, nearly 25 years after the introduction of the original Cadbury Report, is demonstrated by the Culture Project launched by the Financial Reporting Council (FRC) last October, and signifies a greater emphasis being placed on the culture of a company. This is referred to in the preface to the Code but recent studies have emphasised its importance in underpinning a company's behaviour and also stressed that, to be truly embedded, it must be set by the Board.

At Derwent London, we have always appreciated the importance of setting the tone from the top and have strived to promote a collegiate, honest and open culture throughout the business. This is supported by the Group's Whistleblowing policy. The importance of our culture has become increasingly evident over the last year as we have formalised the Group's Risk Appetite Statement, reviewed the Group's Bribery Act procedures and considered the requirements under the new Modern Slavery Act. In all these instances the successful implementation of the new processes depends at least as much on the culture established throughout the business by the Board as the detailed procedures that are introduced.

Within this overall context, there are a number of governance issues that I would like to provide further details on.

Risk

One of the key risks to the Group's strategy that was identified last year and which has been carefully monitored by the Risk Committee during 2015 is cyber risk. This takes many different forms and has been the subject of guidance issued by the UK Government. The Group has adopted a three pronged approach to reduce the risk. The first was to improve the resilience of the IT infrastructure and to enhance the forensic capabilities of the business which will allow an attack to be identified and remedied more quickly. Secondly, staff awareness training has been increased with particular emphasis on 'social engineering' techniques. Finally, the Group's Business Continuity Plan was updated and fully tested at the disaster recovery suite.

Whilst in no way becoming complacent, these improvements to the controls and mitigating actions resulted in the Executive Committee lowering its assessment of this risk during its review of the Risk Register at the end of the year.

New legislation

The Modern Slavery Act 2015 came into force in October 2015. Whilst we do not have to report under this legislation in respect of this year end, we have completed an initial review of the requirements and carried out a risk assessment. As a result of this we have identified the high risk area of our business and supply chain and inserted compliance clauses into the contracts of our higher risk suppliers. During 2016 it is intended to prepare a formal policy dealing with slavery and human trafficking and to roll out a programme of staff training.

Future developments

Over the last few years I have commented on the volume of changes to the corporate governance environment and the introduction of the Modern Slavery Act shows that change is still happening. However, in January 2016 the FRC announced that it does not intend to make substantial changes to the Code for the next three years. Subject to changes arising from the EU Audit Regulation and Directive, this period of relative stability is to be welcomed.

As always, I would encourage you to attend the Group's Annual General Meeting on 13 May 2016. This important event gives you the opportunity to meet both the chairmen of the Board committees and members of senior management.

ROBERT A. RAYNE
CHAIRMAN

25 FEBRUARY 2016

DIRECTORS' REPORT

TIMOTHY KITE
COMPANY SECRETARY

The Directors present their annual report and audited financial statements for the year ended 31 December 2015.

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

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

Seven non-executive Directors:	
Robert Rayne	Chairman
Stuart Corbyn[1]	
Stephen Young	
Simon Fraser	Senior Independent Director
Richard Dakin	
Claudia Arney	
Cilla Snowball	
Six executive Directors:	
John Burns	Chief Executive Officer
Simon Silver	
Damian Wisniewski	
Nigel George	
Paul Williams	
David Silverman	

[1] Stuart Corbyn was the Group's Senior Independent Director until 31 December 2015.

As noted in the Chairman's letter on Corporate Governance above, Stuart Corbyn is not deemed independent under the criteria set out in provision B.1.1. of the Code having served on the Board for more than nine years.

Whilst the Board, together with a number of institutional investors, does not consider length of service alone to be an accurate guide to a Director's independence, in view of Stuart's tenure it has specifically considered his independence.

As part of its review, the Board noted that Stuart had no relationships with management that might compromise his independence and that he had demonstrated commitment and diligence in carrying out his duties during the year. Given these factors, together with the robust challenge that he consistently presented to the executives and the manner with which he exercised his judgement, the Board was satisfied that Stuart maintained an independent state of mind.

However, despite this conclusion, in the interest of good governance, Stuart has stepped down from his positions as the Group's Senior Independent Director and Chairman of the Nomination Committee on 31 December 2015. In both of these roles he has been replaced by Simon Fraser.

The Group's Nominations Committee continues to monitor the composition, independence and balance of the Board to ensure that the non-executive Directors are able to constructively test the views of the executive Directors.

A key element of this monitoring process relates to the diversity of the Board having due regard to the requirements of the UK Corporate Governance Code and the requests made by Lord Davies of Abersoch through the Department for Business, Innovation & Skills. Whilst the Board does not consider quotas to be an appropriate determinant of its composition, it notes Lord Davies' original 25% target for women's representation on boards and the progress made towards this as set out in the 'Women on Boards – Five year summary' paper published in October 2015. The Board's policy in this regard is to avoid positive discrimination and continue to make appointments based purely on merit with the aim of ensuring that the Board has the correct balance of skills, experience, length of service and knowledge of the Group to meet the requirements of the business.

The appointments of Claudia Arney and Cilla Snowball during 2015 met last year's aim of the Nomination Committee to recruit an additional female director but, more importantly, the skills and experience that they bring to the Board enhance its diversity on a much broader basis.

The Board currently includes two females (15%) and the gender mix throughout the Group is illustrated in the diagrams on page 70.

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

The Nominations Committee also considers the Group's succession planning on a regular basis to ensure that changes to the Board are properly planned and co-ordinated and that, in the event of unforeseen circumstances, the Group would be able to continue to deliver its long-term strategy.

The development of the executive management team below the Board is also monitored to ensure that there is an appropriate and diverse supply of senior executives and potential future Board members.

Responsibilities

The Board is responsible for setting the Group's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the Board is maintained which includes decisions relating to strategy and management, structure and capital, internal control and corporate governance, major contracts, certain external communications and Board membership. The list is reviewed periodically.

The full Board met six times during the year and six meetings are scheduled for 2016. Extra meetings will be arranged if necessary. The Executive Committee, which consists of the executive Directors plus four of the Group's senior managers, met 11 times throughout the year. Both bodies are provided with comprehensive papers in a timely manner to ensure that they are fully briefed on matters to be discussed at these meetings.

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

		Full Board	Executive Committee
Number of meetings		6	11
Executive			
John Burns		6	11
Simon Silver		6	11
Damian Wisniewski		6	11
Paul Williams		6	11
Nigel George		6	11
David Silverman		6	11
Non-executive			
Robert Rayne		6	–
Stuart Corbyn		6	–
Richard Dakin		6	–
June de Moller		5	–
Robert Farnes	(until 30 June 2015)	2	–
Simon Fraser		6	–
Stephen Young		6	–
Claudia Arney	(from 18 May 2015)	4	–
Cilla Snowball	(from 1 Sept 2015)	2	–

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

Board Committees

The Board maintains a number of Board Committees. The terms of reference of each Committee are available on the Group's website www.derwentlondon.com. Set out below are details of the membership and duties of the four principal committees that operated throughout 2015.

Remuneration Committee

Membership and attendance:

Simon Fraser	Chairman	•	•	•	•
Stuart Corbyn		•	•	•	•
June de Moller	(until Dec 2015)	•	•	•	0
Stephen Young		•	•	•	•
Claudia Arney	(from May 2015)	–	–	–	•

The Committee is responsible for establishing the Group's remuneration policy and individual remuneration packages for the executive Directors and selected senior executives. There were four meetings of the Committee in 2015 and the report of its activities is set out on pages 96 to 112.

Nominations Committee

Membership and attendance:

Stuart Corbyn	Chairman (until Dec 2015)	•	•
June de Moller	(until Dec 2015)	•	•
Simon Fraser	Chairman (from Jan 2016)	•	•
Richard Dakin		•	•
Cilla Snowball	(from Sept 2015)	–	–

The Committee's responsibilities include identifying external candidates for appointment as Directors and, subsequently, recommending their appointment to the Board. If requested, the Committee will make a recommendation concerning an appointment to the Board from within the Group. The Committee met twice during 2015 and the report of the Nominations Committee is on page 113.

Risk Committee

Membership and attendance:

Richard Dakin	Chairman	•	•	•
June de Moller	(until Dec 2015)	•	•	•
Stephen Young		•	•	•
John Burns		•	•	•
Damian Wisniewski		•	•	•
Cilla Snowball	(from Jan 2016)	–	–	–

The Committee's main responsibility is to review the effectiveness of the Group's internal control and risk management systems. It met three times during the year and the Committee's report is on page 114.

Audit Committee

Membership and attendance:

Stephen Young	Chairman	•	•	•	•
Stuart Corbyn		•	•	•	•
Richard Dakin		•	•	•	•
Simon Fraser		•	•	•	•
Claudia Arney	(from Jan 2016)	–	–	–	–

The Committee is responsible for reviewing, and reporting to the Board on, the Group's financial reporting and for maintaining an appropriate relationship with the Group's Auditor. The Committee met four times during 2015 and the report of the Audit Committee is on pages 116 and 117.

• – attended
0 – not attended

Performance evaluation
The Company again used Lintstock, an independent third party, to facilitate the annual review of the effectiveness of the Board and its Committees required by Code provision B.6.2.

As a result of last year's review, measures were taken during 2015 to make the Group's board papers more focused. This has enabled the Directors to identify and address the key issues more easily.

The responses also showed that the work undertaken by the Risk Committee on the Group's risk management process had improved performance in this area.

This year's review took the form of a confidential, online survey which was completed by all the Directors and the Company Secretary. The survey covered the processes and performance of the Board, its Committees and the Chairman. In view of the new Directors who joined the Board during the year, particular focus was given to the Group's induction process. The performance of individual Directors was assessed by the Remuneration Committee as part of the salary review process.

The facilitator consolidated the responses and prepared reports for the Chairman as well as the chairmen of the relevant Committees.

As a result of this evaluation, the Board is satisfied that the structure, balance of skills and operation of the Board continues to be satisfactory and appropriate for the Group.

In addition, the Chairman is satisfied that the non-executive Directors, whom are standing for re-election at the Annual General Meeting (AGM), continue to be effective and show a high level of commitment to their roles. In forming this assessment, the Chairman paid particular attention to those Directors that had served on the Board for more than six years.

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

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

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

The articles provide that, at every AGM of the Company, any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. However, in accordance with Provision B.7.1 of the Code the Company subjects all Directors to annual re-election and therefore at the next AGM all the Directors will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on pages 80 and 81.

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

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

The Company provides new Directors with a comprehensive induction process which includes visiting a number of the Group's properties with senior management, meetings with the Group's audit partner and corporate lawyer together with meetings with members of the management team.

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

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

Powers of the Directors

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

Directors

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

There have been no changes in any of the Directors' interests between the year end and 25 February 2016.

During the year, a conditional grant of 157,505 shares was made to Directors under the Performance Share Plan (PSP) whilst 115,463 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 115,462 shares of this award made to Directors lapsed.

The Directors do not participate in the Executive Share Option Scheme.

Other than as disclosed in note 36 the Directors have no interest in any material contracts of the Company.

Conflicts of interest

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

Communication with shareholders

The Company recognises the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive Directors, through presentations and visits to the Group's property assets. The Board receives regular reports of these meetings which include a summary of any significant issues raised by the shareholders. The Group's website www.derwentlondon.com, which includes the presentations made to analysts at the time of the Group's interim and full year results, together with the social media channels that the Group uses, provide additional sources of information for shareholders. Websites for specific developments are used to help explain the Group's current activities to shareholders in more detail. The Annual Report, which is available to all shareholders, reinforces this communication.

The AGM provides an opportunity for shareholders to question the Directors and, in particular, the Chairman of each of the Board Committees. An alternative channel of communication to the Board is available to shareholders through the Senior Independent Director.

Directors' interests in the Company's share capital

	Ordinary shares of 5p each		Options and deferred shares	
	31 Dec 15	31 Dec 14	**31 Dec 15**	31 Dec 14
R.A. Rayne[1]	**4,194,703**	4,409,295	**–**	–
J.D. Burns	**694,498**	738,244	**139,545**	163,203
S.P. Silver	**239,887**	294,887	**119,717**	139,963
N.Q. George	**47,550**	47,550	**82,855**	89,222
P.M. Williams	**44,551**	44,551	**83,286**	90,084
D.G. Silverman	**16,469**	16,469	**81,733**	85,737
D.M.A. Wisniewski	**21,781**	21,781	**83,286**	90,084
S.A. Corbyn	**1,000**	1,000	**–**	–
R.D.C. Dakin	**–**	–	**–**	–
J. de Moller (retired Dec 2015)	**n/a**	2,985	**–**	–
R.A. Farnes (retired May 2015)	**n/a**	5,628	**–**	–
S.W.D. Fraser	**–**	–	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
C.I. Arney (appointed May 2015)	**–**	n/a	**–**	n/a
P.D. Snowball (appointed Sept 2015)	**–**	n/a	**–**	n/a

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

Risk management and internal control

The principal risks and uncertainties facing the Group in 2016 together with the controls and mitigating factors are set out on pages 72 to 77. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of the price, credit, liquidity and cash flow risks that are inherent in the Group's business are given in note 23 on pages 148 to 155. The key elements of the Group's internal control framework which is designed to manage and control the Group's risks are:

- an approved schedule of matters reserved for decision by the Board and the Executive Committee supported by defined responsibilities and levels of authority;
- the day-to-day involvement of the executive Directors in all aspects of the Group's business;
- a comprehensive system of financial reporting and forecasting including both sensitivity and variance analysis;
- maintenance, updating and regular review by the Risk Committee of the Group's Risk Register which forms part of the risk management process; and
- a formal Whistleblowing Policy which includes access to an external help line.

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

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

This review did not reveal any significant weaknesses in the Group's system of controls.

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

Report and accounts

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

Share capital

As at February 2016, the Company's issued share capital comprised a single class of 5p ordinary shares. Details of the ordinary share capital and shares issued during the year can be found in note 26 to the financial statements.

Derwent London shares held by the Group

At 31 December 2015 the Group held 44,803 Derwent London shares in order to deliver the deferred bonus shares to the Directors and other senior executives when the deferral periods expire. Movements on the holding of these shares are detailed below:

Transaction	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Holding at 1 January 2014	33,436	0.033		494,680
Disposal on 2 April 2014	(24,275)	(0.024)	27.34	(663,678)
Acquired on 7 April 2014	29,062	0.028	27.34	794,555
Maximum holding during 2014 and holding as at 31 December 2014	38,223	0.037		625,557
Disposal on 26 March 2015	(23,693)	(0.021)	34.65	(820,962)
Acquired on 26 March 2015	30,273	0.027	34.65	1,048,959
Maximum holding during 2015 and holding as at 31 December 2015	**44,803**	**0.043**		**853,554**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Powers in relation to the Company issuing or buying back its own shares
The Directors were granted authority at the 2015 AGM to allot relevant securities up to a nominal amount of £1,844,402. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,852,868 and (ii) up to a nominal amount of £3,705,736 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the 'section 551 authority'), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £555,860. A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,117,210 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Substantial shareholders
In addition to those of the Directors disclosed on page 89, the Company has been notified of the following interests in the issued ordinary share capital as at 25 February 2016.

	Number of shares	Percentage of issued share capital
Blackrock Investment Management (UK) Ltd	6,906,835	6.21
Norges Bank	5,547,762	4.99
Invesco Inc	5,242,406	4.72
Standard Life Investments	4,284,390	3.85
Lady Jane Rayne	3,593,838	3.23

DIRECTORS' REPORT
CONTINUED

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

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

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

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

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

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

Fixed assets
The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2015, resulting in a surplus of £672.2m, before accounting adjustments of £20.8m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £4,832m. Further details are given in note 16 of the financial statements.

Post balance sheet events
Details of post balance sheet events are given in note 34 of the financial statements.

Going concern
Under Provision C.1.3 of the UK Corporate Governance Code, the Board is required 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 Group's risks and risk management processes are set out on pages 72 to 77 where the key risks in the Group's Risk Register that could be a threat to the Group's business model and capital adequacy together with the Group's Viability Statement are also presented.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least 25 February 2017. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

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

Auditors
PricewaterhouseCoopers LLP, which was appointed in 2014 following a competitive tender process, has expressed its willingness to continue in office as the Group's auditor and accordingly, resolutions to reappoint it and to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 17 and 18 set out in the notice of meeting.

Additional information
For the purposes of Listing Rule (LR) 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

Section in LR 9.8.4 R	Topic	Location in the annual report and accounts
1	Interest capitalised	Note 7 Page 134
2	Publication of unaudited financial information	n/a
3	Requirement subsequently deleted from the listing rules	–
4	Details of long-term incentive schemes	Page 108
5	Waiver of emoluments by a director	n/a
6	Waiver of future emoluments by a director	n/a
7	Non pre-emptive issues of equity for cash	n/a
8	Item (7) in relation to major subsidiary undertakings	n/a
9	Parent participation in a placing by a listed subsidiary	n/a
10	Contracts of significance	Page 92
11	Provision of services by a controlling shareholder	n/a
12	Shareholder waivers of dividends	n/a
13	Shareholder waivers of future dividends	n/a
14	Agreements with controlling shareholders	n/a

Our carbon footprint

We present below our annual GHG (greenhouse gas) emissions footprint for 2015 compared to our 2014 footprint. We also include a set of intensity ratios appropriate for our business, both of which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report Regulations 2013).

We have seen reductions in our corporate carbon generation by 1.38% and overall CO_2e/m^2 intensity reduction of 11%.

For further analysis and detail on our GHG emissions please see our Annual Sustainability Report, which can be found at www.derwentlondon.com/sustainability.

Total managed portfolio including corporate based emissions

			Whole year (Q1-4)		
			Years		
			2015	% change 2014 to 2015	2014
Scope 1	Energy-use	Gas (total building)	**2,700**	17.6	2,295
		Oil (total building)	**48**	(38.7)	78
	Travel	Fuel use in Derwent London company cars for business travel	**11**	(40.4)	19
	Fugitive emissions	Refrigerant emissions	**427**	(44.9)	774
Scope 2	Energy-use	Electricity use – generation (landlord-controlled areas and Derwent London occupied floor area)	**5,406**	(2.2)	5,527
Scope 3	Energy-use	Electricity use – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	**806**	(4.3)	842
		Electricity use – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	**513**	(7.9)	557
		Gas (total building)	**363**	17.9	308
		Oil (total building)	**10**	(38.3)	16
	Travel	Fuel use in Derwent London company cars for business travel WTT	**2**	(41.3)	4
		Business air travel WTT	**3**	(46.0)	5
		Business air travel	**23**	(43.7)	41
	Water	Water use (total building)	**55**	19.4	46
Total (Landlord only)	**All**	**All**	**10,367**	(1.38)	10,512
Out of scope	Energy-use	Biomass use (total building)	**31**	18.8	26
Tenant emissions Scope 1 + 2 + 3			**15,562**	8.7	14,316

Intensity

	2015	% change 2014 to 2015	2014
tCO_2e/£m turnover (Scopes 1 and 2 only, including Scope 1 fugitive emissions)	56.53	(10.0)	62.81
Intensity (tCO_2e/m^2) including Scope 1 fugitive emissions	0.025	(11.0)	0.028

Data notes

Reporting period	1 January 2015 to 31 December 2015
Baseline year	2014
Boundary (consolidation approach)	Operational control
Alignment with financial reporting	The only variation is that the GHG emission data presented does not account for single-let properties or properties for which we do not have management control. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements. The percentage movements are calculated using the figures before rounding.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions factor source	DEFRA, 2015 – www.ukconversionfactorscarbonsmart.co.uk.
Independent assurance	Public limited assurance (using ISAE 3000) provided by Deloitte LLP over all Scope 1, 2 and 3 GHG emissions data.
Data changes and restatements	No data changes or restatements in 2014.

Annual General Meeting

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

Resolution 19 is an ordinary resolution to renew the authority of the Directors under Section 551 of the Companies Act 2006 to allot shares. Paragraph A of the resolution gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £1,852,868 which represents about one-third of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

In line with guidance issued by the Investment Association, paragraph B of the resolution gives the Directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £3,705,736, as reduced by the nominal amount of any shares issued under paragraph A of the resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

The Directors have no present intention of issuing shares except on the exercise of options under the Company's share option scheme, on the vesting of shares under the Company's performance share plan or in connection with the scrip dividend scheme. The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 13 August 2017.

Resolution 20 is a special resolution to renew the Directors' authority under Sections 571 and 573 of the Companies Act 2006. The resolution empowers the Directors to allot shares or sell treasury shares for cash in connection with pre-emptive offers and the scrip dividend scheme (where the scrip election is made after the declaration (but before payment) of a final dividend) with modifications to the requirements set out in Section 561 of the Companies Act 2006. The resolution further empowers the Directors to allot or, in the case of treasury shares, sell shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £555,860 which is equivalent to approximately 10% of the issued share capital as at the latest practicable date prior to the publication of this document provided that, unless the proceeds of such allotment or sale are to be applied in connection with an acquisition or specified capital investment, this authority is limited to 5% of the issued share capital.

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

Allotments made under the authorisation in paragraph B of resolution 19 would be limited to allotments by way of a rights issue (subject to the right of the Board to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 13 August 2017.

Resolution 21 is a special resolution to renew the authority enabling the Company to purchase its own shares. This authority enables the Directors to act quickly, if, having taken account of all major factors such as the effect on earnings and net asset value per share, gearing levels and alternative investment opportunities, such purchases are considered to be in the Company's and shareholders' best interest while maintaining an efficient capital structure. The special resolution gives the Directors authority to purchase up to 10% of the Company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought. The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 13 August 2017.

The Companies Act 2006 permits the Company to hold any such repurchased shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them. Accordingly, if the Company purchases any of its shares pursuant to resolution 21, the Company may cancel those shares or hold them in treasury. Such a decision will be made by the Directors at the time of purchase on the basis of the Company's and shareholders' best interests. As at the date of the notice of meeting, the Company held no shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 25 February 2016 was 893,190 which represented 0.8% of the issued share capital (excluding treasury shares) at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 25 February 2016 would represent 1.0% of the issued share capital (excluding treasury shares).

Resolution 22 is required to reflect the implementation of the Shareholder Rights Directive which, in the absence of a special resolution to the contrary, increased the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. The shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and it is thought to be to the advantage of the shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Approved by the Board and signed on its behalf by:

TIMOTHY J. KITE ACA
COMPANY SECRETARY

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

SIMON FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2015.

The Group's objective remains to be to deliver above average long-term returns to shareholders. In order to deliver this through the successful operation of our business model we need to recruit, retain and motivate the best people. At a senior level, the Remuneration Committee is responsible for this and aims to achieve it by implementing and maintaining a remuneration structure that meets this requirement and promotes long-term sustainable performance whilst ensuring that the structure does not create incentives for management to operate outside the Group's risk appetite.

Our remuneration policy supports the Group's objective by linking a majority of variable pay to targets which require outperformance of our competitors. Payments under these arrangements only begin to be made if we achieve at least average performance against the relevant peer group.

The Committee has considered the long-term aspects of the remuneration structure and is satisfied that the deferral part of the annual bonus, additional holding periods for vested Long-term Incentive Plan (LTIP) awards, clawback provisions and shareholding guidelines adequately promote long-term, sustainable performance.

Performance and reward in 2015

The Group's strong results for 2015 are discussed in the Strategic Report and include a 21.6% increase in EPRA net asset value per share and a total return of 23.0%. Both these KPIs are measures of performance used in assessing the level of performance related pay for the Directors. To ensure that remuneration reflects a balanced performance, a scorecard of additional metrics are taken into account by the Committee when considering the non-financial element of the Group's annual bonus scheme. Taking all these measures into account resulted in a bonus entitlement of 74.2% of entitlement being earned.

Conditional awards made in 2013 under the Group's 2004 Performance Share Scheme (PSP) will vest in April 2016. These awards were subject to two performance conditions each over 50% of the award. The first element was based on total shareholder return (TSR) performance compared with that of a group of other real estate companies. This measure will be finalised in April 2016 and was estimated at the year end. The second part was based on net asset value growth compared to properties in the IPD Central London Offices Total Return Index and was measured to 31 December 2015. The combined assessment of the two performance measures as at 25 February 2016 was that 65% of the total award was expected to vest. The final vesting percentage will be ascertained in April 2016.

The Committee believes that the outturn of both the annual bonus and the PSP fairly represents the Group's performance over their respective performance periods.

Implementation of remuneration policy for 2016

The Committee reviewed the executive Directors' salaries in December 2015 and agreed a basic increase of 3% for 2016. This increase is in line with the average salary increase across the rest of the Group and reflects another year of excellent performance by the management team as demonstrated by the achievements discussed in the Strategic Report.

During 2016 the Committee will make a conditional award of shares under the Group's PSP equivalent in value to 200% of the Directors' 2016 salary and confirm that the maximum entitlement under the Group's annual bonus scheme will be 150% of salary for 2016, both unchanged from 2015.

As a Committee we are committed to ensuring that rewards for executives are aligned with the interests of shareholders and other stakeholders through having all their incentive arrangements linked to stretching performance targets that are rigorously applied. These targets focus the management team on increasing net asset value and total return whilst also having regard to a number of non-financial and sustainability targets.

The current remuneration policy was approved by shareholders in 2014 and the Committee is aware that since then the executive remuneration landscape has continued to evolve and that in particular there has been a move towards simplifying structures.

The Committee has reviewed the existing policy in the light of these changes and remains confident that it continues to meet its objectives. Consequently, no changes are proposed to the remuneration policy and therefore the Committee will not be seeking any new approval for the Directors' Remuneration Policy Report at the forthcoming AGM on 13 May 2016.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

25 FEBRUARY 2016

REPORT OF THE REMUNERATION COMMITTEE

This part of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Act). The overall remuneration policy has been developed in compliance with the principles of the 2014 UK Corporate Governance Code and the Listing Rules. The policy, having been approved by shareholders at the 2014 AGM, is currently intended to be applied throughout the three-year period that commenced on 16 May 2014. For information purposes only, the policy report is re-presented, although with changes made to reflect page references, removal of prior year information when no longer relevant, the dates of the service contracts signed after the 2014 AGM (although in line with the terms disclosed in the approved policy) and the removal of the remuneration scenario chart. The full original report can be viewed on the Company's website (www.derwentlondon.com). The annual statement by the Chairman of the Remuneration Committee and the annual report on Directors' remuneration will be put to an advisory vote at the 2016 AGM on 13 May 2016.

Directors' remuneration policy report

The Committee, on behalf of the Board, is responsible for determining remuneration packages for the executive Directors and selected other senior executives. It also oversees the operation of the Group's bonus scheme and PSP and considers the level of business risk that the remuneration structure encourages the executives to accept.

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

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

The policy table opposite sets out the broad principles which will be applied when setting the individual remuneration packages of Directors. This should be read in conjunction with the recruitment and promotion policy on page 102 and the application of policy for 2016 on pages 103 to 112.

Executive Director policy table

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Reviewed annually, with effect from 1 January. Review reflects: ■ Role, experience and performance. ■ Economic conditions. ■ Increases throughout the rest of the business. ■ Levels in companies with similar characteristics. Salaries are set after having due regard to the salary levels operating in companies of a similar size and complexity, the responsibilities of each individual role, individual performance and an individual's experience. Our overall policy, having had due regard to the factors noted, is normally to target salaries at around the market median level.	The current salary levels are detailed in the Annual Report on Remuneration on page 105 and will be eligible for increases during the period that the Directors' remuneration policy operates. During this time, to the extent that salaries are increased, increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases beyond those linked to the workforce generally (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases over the subsequent few years, in order to bring the salary to the desired position, subject to individual performance.	A broad assessment of personal and corporate performance is considered as part of the salary review.
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives. Medical benefits to help minimise disruption to business.	Directors are entitled to private medical insurance, car and fuel allowance and life assurance. The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce.	The maximum cost of providing benefits is not pre-determined and may vary from year-to-year based on the overall cost to the Company in securing these benefits for a population of employees (particularly health insurance and death-in-service cover).[1]	None.

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

Executive Director policy table (continued)

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

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

Executive Director policy table (continued)

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

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

- Participants of the plans.
- The timing of grant of award and/or payment.
- The size of an award and/or a payment (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table on pages 98 and 99).
- The determination of vesting.
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group.
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen.
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends).
- The annual review of performance conditions for the annual bonus plan and Performance Share Plan from year-to-year.

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

The outstanding share incentive awards which are detailed in tables 2 and 4 on pages 108 and 110 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in the 2014 report of the Remuneration Committee will remain eligible to vest or become payable on their original terms.

Choice of performance measures and approach to target setting
The performance metrics that are used for annual bonus and long-term incentive plans are aligned to the Company's KPIs.

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

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

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

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

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

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

Service contracts and compensation for loss of office
As part of the major review of the Directors' remuneration structure undertaken in 2013/2014, all the executive Directors entered into new service contracts dated 16 May 2014. These include a payment in lieu of notice clause which provides for monthly phased payments throughout the notice period which include pro-rated salary, benefits and pension only and are subject to mitigation. The new service contracts have no change of control provisions and all other elements were brought up to date in line with best practice.

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

service year for awards granted before 1 January 2013) to reduce vested awards for time served in the relevant period.

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

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

Chairman and non-executive Directors
Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes.

The non-executive Directors listed below do not have service contracts but are appointed for three year terms which expire as follows:

Stephen Young	31 July 2016
Richard Dakin	31 July 2016
Claudia Arney	31 May 2018
Simon Fraser	31 August 2018
Cilla Snowball	31 August 2018

Stuart Corbyn's appointment was extended for one year to expire on 23 May 2016.

Mr Rayne has a letter of appointment, which runs for three years, expiring on 25 March 2016. In addition to his fee as Chairman, it provides for a car, driver and secretary, together with a contribution to his office running costs. His letter of appointment also contains provisions relating to payment in lieu of notice.

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

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

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

Annual report on remuneration

Remuneration Committee

At the start of 2015, the Remuneration Committee (the 'Committee') consisted of Simon Fraser (Chairman), Stuart Corbyn, June de Moller and Stephen Young. Claudia Arney joined the Committee in May 2015 and June de Moller left it in December 2015. None of the members who have served during the year had any personal interest in the matters decided by the Committee, or any day-to-day involvement in the running of the business and, therefore, are considered to be independent. The full terms of reference of the Committee are available on the Company's website.

New Bridge Street (NBS) – a trading name of Aon plc – was retained to provide independent assistance to the Committee regarding the setting of salaries and the operation of the PSP and bonus scheme. In particular, NBS provides an independent assessment of outcomes under the bonus scheme and the extent of vesting of the conditional share awards under the PSP and ensures that the measures used for both schemes are comparable and consistent. The fees paid to NBS for these services, based on hourly rates, amount to £16,500. NBS did not provide any other services to the Group during the year and the Committee is satisfied that the advice provided by NBS is independent and objective.

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

Application of policy for 2016

Base salaries

The base salaries that are applicable from 1 January 2016, after allowing for a 3% increase are as follows:

- John Burns – £638,000
- Simon Silver – £547,500
- Damian Wisniewski – £406,500
- Paul Williams – £406,500
- Nigel George – £406,500
- David Silverman – £406,500

The salary increases of 3% are in line with those of the wider workforce.

Benefits and pension

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

Annual bonus

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

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

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

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

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

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

Long-term incentives

It is proposed that long-term incentive awards in 2016 will be granted at 200% of salary to all executive Directors.

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

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

The peer companies for the 2016 award are:

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

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

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

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

Awards granted under the Company's 2014 LTIP include provisions that enable the Committee to recover value in the event of a misstatement of results for the financial year to which the vesting of an award related, or an error in calculation when determining the vesting result, or as a result of misconduct which results in the individual ceasing to be a Director or employee of the Group within two years of the vesting (i.e. clawback provisions apply). The mechanism through which the clawback can be implemented enables the Committee to (i) reduce the cash bonus earned in a subsequent year and/or reduce outstanding discretionary long-term incentive share awards (i.e. withholding amounts to become payable may be used to effect a clawback) or (ii) for the Committee to require that a net of tax balancing cash payment be made. Similar provisions applied under the Company's 2004 PSP in the event of a misstatement of the Company's results.

Non-executive Directors' fees
The fees effective from 1 January 2016 are: Chairman £150,000 (additional benefits are provided as detailed on page 102); base fee £42,500; Committee Chairman fee £7,500; Senior Independent Director fee £5,500; and Committee fee £4,000.

Directors' remuneration summary (audited)

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

Table 1

2015	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	619	63	142	620	70	1,514	1,161	2,675
S.P. Silver	531	40	135	532	60	1,298	996	2,294
D.M.A. Wisniewski	395	22	87	394	45	943	634	1,577
N.Q. George	395	19	92	394	45	945	634	1,579
P.M. Williams	395	21	91	394	45	946	634	1,580
D.G. Silverman	395	20	87	394	45	941	608	1,549
Non-executive								
R.A. Rayne	150	42	–	–	–	192	–	192
S.A. Corbyn	67	–	–	–	–	67	–	67
J. de Moller	54	–	–	–	–	54	–	54
S.G. Young	62	–	–	–	–	62	–	62
S.W.D. Fraser	62	–	–	–	–	62	–	62
R.A. Farnes[2]	21	–	–	–	–	21	–	21
R.D.C. Dakin	62	–	–	–	–	62	–	62
C.I. Arney[3]	27	–	–	–	–	27	–	27
P.D. Snowball[4]	15	–	–	–	–	15	–	15
	3,250	**227**	**634**	**2,728**	**310**	**7,149**	**4,667**	**11,816**

[1] The gains from equity-settled shares are in respect of the 2013 award which will vest in April 2016 and for which the performance conditions were complete or substantially complete at 31 December 2015. The value is based on an estimate of expected vesting and the average share price over the last three months of 2015 of £37.05. As at 23 February 2016, the share price was £29.57.

[2] Robert Farnes retired from the Board in May 2015.

[3] Claudia Arney joined the Board in May 2015.

[4] Cilla Snowball joined the Board in September 2015.

2014	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	602	53	139	602	234	1,630	1,018	2,648
S.P. Silver	516	37	131	516	201	1,401	873	2,274
D.M.A. Wisniewski	383	21	85	383	149	1,021	555	1,576
N.Q. George	383	18	90	383	149	1,023	555	1,578
P.M. Williams	383	21	89	383	149	1,025	555	1,580
D.G. Silverman	383	20	85	383	149	1,020	516	1,536
Non-executive								
R.A. Rayne	150	31	–	–	–	181	1,196	1,377
R.A. Farnes	44	–	–	–	–	44	–	44
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	47	–	–	–	–	47	–	47
S.G. Young	53	–	–	–	–	53	–	53
S.W.D. Fraser	57	–	–	–	–	57	–	57
R.D.C. Dakin	45	–	–	–	–	45	–	45
	3,108	**201**	**619**	**2,650**	**1,031**	**7,609**	**5,268**	**12,877**

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

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

No payments were made to past Directors or in respect of loss of office during 2015 or 2014.

Benefits
Taxable benefits relates to car and fuel allowance, private medical insurance and life assurance.

Determination of 2015 annual bonus outcome
Provision has been made for a bonus for 2015 of 74.2% (2014: 92.6%) of the maximum potential. This has been derived as follows:

Performance measure	Weighting % of bonus	Basis of calculation	Threshold %	Maximum %	Actual %	Payable %
Total return	50.0	Total return of major real estate companies	20.6	25.4	23.0	30.0
Total property return	25.0	Relative to IPD Central London Offices Total Return Index	17.2	22.2	19.9	19.2

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

- **The financing structure of the Group**
  Measures used to assess performance in this area include the interest cover ratio KPI and two of the Group's key metrics – gearing and available resources.
- **Rent collection and the level of arrears**
  Tenant receipts is one of the Group's KPIs.
- **Delivery of projects both in terms of timing and costs**
  This is a key driver to the Group's total property return KPI and is monitored through regular progress reports to the Board and post completion reviews.
- **Health and safety performance**
  Both the Board and the Executive Committee receive regular health and safety reports and zero RIDDORS is one of the Group's CSR targets.
- **Void management and letting performance**
  Management of void space is one of the Group's KPIs and the Board receives regular reports on both these objectives.
- **Staff retention**
  This is considered a good proxy for staff welfare.
- **Governance**
  The Board aims to maintain a high level of governance as it considers this to be a key element in running a successful and sustainable business.
- **Reputation**
  The Board considers this to be a major asset of the Company and the risk of damage to the Group's reputation is one of the major risks identified on pages 72 to 77.
- **Design**
  This is key to maintaining and developing the Group's brand.

The total bonus estimated for each executive is therefore:

	Bonus payable			Deferred bonus	
	% of maximum	% of salary	Cash bonus payable	£	% of salary
J.D. Burns	74.2	111.3	619,500	70,189	11.3
S.P. Silver	74.2	111.3	531,500	60,219	11.3
D.M.A. Wisniewski	74.2	111.3	394,500	44,697	11.3
N.Q. George	74.2	111.3	394,500	44,697	11.3
P.M. Williams	74.2	111.3	394,500	44,697	11.3
D.G. Silverman	74.2	111.3	394,500	44,697	11.3

Long-term incentive plan

Half the awards granted in 2013 under the 2004 Performance Share Plan (PSP) were subject to a relative TSR performance measure and half subject to a growth in the net asset value measure. The performance condition was complete or substantially complete at the year end and the Committee made the following assessment of vesting:

Performance measure	Weighting % of award	Basis of calculation	Threshold %	Maximum %	Actual %	% vesting/ estimated vesting
Growth in NAV	50	Relative to IPD Central London Offices Total Return Index	65.4	80.4	87.4	50.0
Total shareholder return	50	TSR of major real estate companies	45.9	103.6	49.8	15.0

As required by the scheme rules, before allowing any vesting, the Committee considered whether these performance measures reflected the Group's underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the Committee concluded that, for the parts of the 2013 awards with measurement periods ending in 2015, this was the case.

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

Executive	Number of awards vesting	Value of award on vesting[1] £
J.D. Burns	31,330	1,160,777
S.P. Silver	26,877	995,793
D.M.A. Wisniewski	17,108	633,851
N.Q. George	17,108	633,851
P.M. Williams	17,108	633,851
D.G. Silverman	16,412	608,065

[1] Based on the average share price over the last three months of the financial year of £37.05 and the estimated vesting percentage of 65.0%.

On 30 March 2015 the Committee made a LTIP award under the Group's 2014 LTIP to executive Directors on the following basis:

	Type of award	Basis of award granted % of salary	Share price at date of grant £	Number of shares awarded	Face value of award £	% of face value which vests at threshold
J.D. Burns	Nil-cost option	200	34.65	35,750	1,238,738	22.5%
S.P. Silver	Nil-cost option	200	34.65	30,675	1,062,889	22.5%
D.M.A. Wisniewski	Nil-cost option	200	34.65	22,770	788,981	22.5%
N.Q. George	Nil-cost option	200	34.65	22,770	788,981	22.5%
P.M. Williams	Nil-cost option	200	34.65	22,770	788,981	22.5%
D.G. Silverman	Nil-cost option	200	34.65	22,770	788,981	22.5%

If threshold performance is not achieved over the three-year performance period, none of the award will vest. The performance conditions are described in more detail on page 103.

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

Table 2

Market price at award date £	Earliest vesting date	J.D. Burns	S.P. Silver	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
16.43	01/04/14	58,550	50,250	31,950	31,950	27,350	31,000	12,750	243,800
17.19	12/04/15	57,720	49,475	31,500	31,500	29,230	31,500	12,620	243,545
21.20	08/04/16	48,200	41,350	26,320	26,320	25,250	26,320	10,560	204,320
Interest as at 1 January 2014		164,470	141,075	89,770	89,770	81,830	88,820	35,930	691,665
Shares conditionally awarded on 29 May 2014:									
Market price at award date £	Earliest vesting date								
27.12	29/05/17	44,355	38,050	28,245	28,245	28,245	28,245	12,745	208,130
Shares vested or lapsed during 2014:									
Market price at award date £	Market price at date of vesting £								
16.43	27.26	(32,325)	(27,743)	(17,640)	(17,640)	(15,100)	(17,115)	(7,039)	(134,602)
16.43	28.15	(134)	(115)	(73)	(73)	(62)	(71)	(29)	(557)
16.43	Lapsed	(26,091)	(22,392)	(14,237)	(14,237)	(12,188)	(13,814)	(5,682)	(108,641)
Interest as at 31 December 2014		150,275	128,875	86,065	86,065	82,725	86,065	35,925	655,995
Shares conditionally awarded on 30 March 2015:									
Market price at award date £	Earliest vesting date								
34.65	30/03/18	35,750	30,675	22,770	22,770	22,770	22,770	10,280	167,785
34.65	22/05/18	–	–	–	–	–	–	20,510	20,510
Shares vested or lapsed during 2015:									
Market price at award date £	Market price at date of vesting £								
17.19	35.27	(28,860)	(24,738)	(15,750)	(15,750)	(14,615)	(15,750)	(6,310)	(121,773)
17.19	Lapsed	(28,860)	(24,737)	(15,750)	(15,750)	(14,615)	(15,750)	(6,310)	(121,772)
Interest as at 31 December 2015		**128,305**	**110,075**	**77,335**	**77,335**	**76,265**	**77,335**	**54,095**	**600,745**

	31 December 2015	31 December 2014	1 January 2014
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.29 years	1.26 years	1.21 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2015 was £nil (2014: £nil). The weighted average market price of awards vesting in 2015 was £35.27 (2014: £27.26).

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

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

- half of the shares vest based on TSR performance relative to a comparator group of companies; and
- for awards granted up to 2013, half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index;
- for awards granted from 2014, half of the shares vest based on TPR performance compared to the properties in the IPD Central London Offices Total Return Index.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2015 comprises the following – Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. Under the 2004 PSP 25% of awards subject to the TSR target vest for median performance over the three-year performance period increasing to full vesting for upper quartile performance. Median performance under the 2014 LTIP results in 22.5% of the award subject to the TSR target test vesting with full vesting still requiring upper quartile performance.

For awards granted up to 2013 if the Group's NAV performance matches that of the median performing property in the Index over the three-year performance period 25% of awards subject to the NAV target vest. Vesting increases on a sliding scale to full vesting for out-performing the median performing property by 5% per annum. For awards granted in 2014 and beyond median performance results in 22.5% of the award subject to the TPR target vesting. This increases to 75% vesting for outperforming the median by 2.5% per annum with full vesting being achieved for 5% per annum outperformance of the median.

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

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

Share option schemes

Disclosure relating to a share option scheme in which the Directors do not participate is given in note 13 on page 136.

Following the acquisition of London Merchant Securities plc (LMS) in 2007, options that had already vested under the LMS Executive Share Option Scheme were converted to options over Derwent London shares. Details of these options are given in table 3 below:

Table 3

	Exercise price £	Expiry date	R.A. Rayne
	9.92	01/09/14	25,274
	12.03	28/06/15	41,456
Interest as at 1 January 2014			66,730
No options were granted or lapsed in 2014			
Options exercised during 2014			
	Exercise price £	Market price at date of exercise £	
	9.92	27.99	(25,274)
	12.03	29.52	(20,000)
	12.03	29.99	(10,000)
	12.03	30.38	(11,456)
			(66,730)
Interest as at 31 December 2014			–
No options were granted, exercised or lapsed in 2015			
Interest as at 31 December 2015			**–**

R.A. Rayne made a gain of £nil on options exercised during the year (2014: £1,196,000).

The weighted average exercise price of options exercised during 2015 was £nil (2014: £11.23) and the weighted average market price at the date of exercise £nil (2014: £29.16).

Deferred bonus shares

Details of the deferred bonus shares held by the Directors are given in table 4.

Table 4

		J.D. Burns	S.P. Silver	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Total
Interest as at 1 January 2014		12,990	11,140	2,401	2,401	2,139	2,365	33,436
Deferred in 2014								
Date of deferment	Value per share on deferment £							
25/03/14	26.97	9,203	7,895	2,586	3,448	2,482	3,448	29,062
Vested in 2014								
Date of vesting	Value per share on vesting £							
02/04/14	27.34	(5,541)	(4,755)	(1,260)	(1,260)	(1,080)	(1,224)	(15,120)
02/04/14	27.34	(3,724)	(3,192)	(570)	(570)	(529)	(570)	(9,155)
Interest at 31 December 2014		12,928	11,088	3,157	4,019	3,012	4,019	38,223
Deferred in 2015								
Date of deferment	Value per share on deferment £							
25/03/15	35.27	6,639	5,695	4,227	4,227	4,227	4,227	29,242
Vested in 2015								
Date of vesting	Value per share on vesting £							
26/03/15	34.65	(3,725)	(3,193)	(571)	(571)	(530)	(571)	(9,161)
26/03/15	34.65	(4,602)	(3,948)	(1,293)	(1,724)	(1,241)	(1,724)	(14,532)
Interest at 31 December 2015		**11,240**	**9,642**	**5,520**	**5,951**	**5,468**	**5,951**	**43,772**

The market price of the 5p ordinary shares at 31 December 2015 was £36.72 (2014: £30.18). During the year, they traded in a range between £30.02 and £38.80 (2014: £24.58 and £30.73).

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are given in table 5.

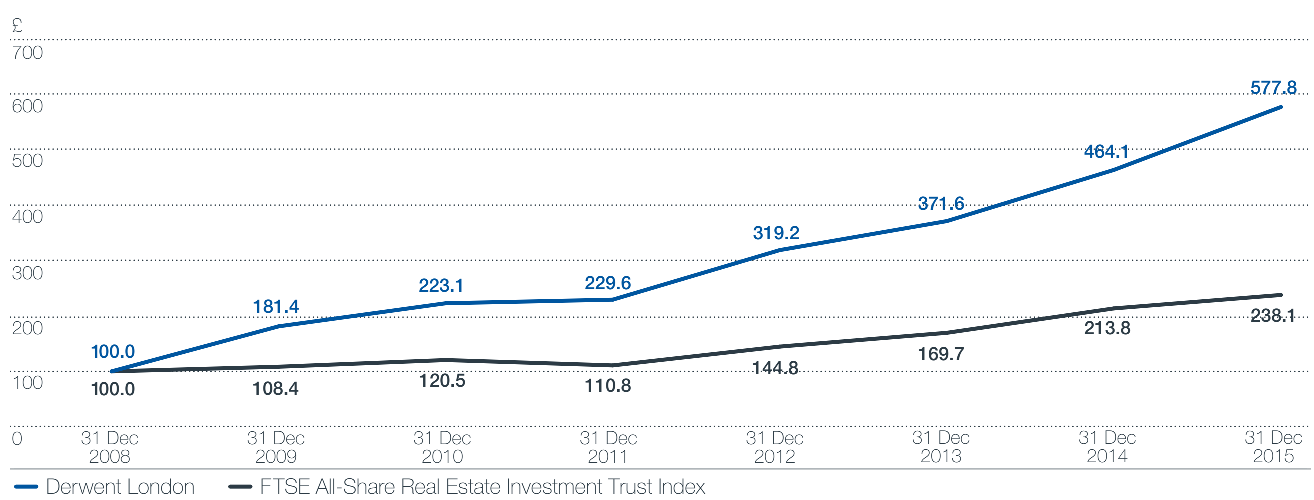
Table 5

	£'000			Number of shares			
	2016 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	**Total**
J.D. Burns	638	1,276	20,536	694,498	11,240	128,305	**834,043**
S.P. Silver	547	684	7,093	239,887	9,642	110,075	**359,604**
D.M.A. Wisniewski	406	508	644	21,781	5,951	77,335	**105,067**
P.M. Williams	406	508	1,317	44,551	5,951	77,335	**127,837**
N.Q. George	406	508	1,406	47,550	5,520	77,335	**130,405**
D.G. Silverman	406	508	487	16,469	5,468	76,265	**98,202**

[1] Valued at £29.57, the value of a 5p ordinary share in the Company on 23 February 2016.

Details of non-executive Directors shareholdings are given on page 89.

Total shareholder return



Source: Thomson Reuters.

This graph shows the value, by 31 December 2015, of £100 invested in Derwent London on 31 December 2008 compared to that of £100 invested in the FTSE All-Share Real Estate Investment Trusts Index. The other points plotted are the values at intervening financial year ends.

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

Remuneration of the Chief Executive Officer 2008 – 2015

Year Ending	Executive	Total remuneration £'000	Annual bonus (% of max)	LTIP vesting (% of max)
31/12/15	J.D. Burns	2,675	74.2%	65.0%[1]
31/12/14	J.D. Burns	2,648	92.6%	50.0%
31/12/13	J.D. Burns	2,478	95.0%	55.2%
31/12/12	J.D. Burns	2,721	85.4%	83.8%
31/12/11	J.D. Burns	2,387	90.0%	50.0%
31/12/10	J.D. Burns	2,304	87.5%	50.0%
31/12/09	J.D. Burns	1,384	62.5%	47.6%
31/12/08	J.D. Burns	956	25.6%	36.5%

[1] Estimate.

Percentage increase in the remuneration of the Chief Executive Officer

	2015	2014	% change
Chief Executive (£'000)			
Salary	**619.5**	601.5	3.0
Benefits	**205.2**	192.2	6.8
Bonus	**690.0**	835.7	(17.4)
Average employee (£'000)			
Salary	**66.8**	63.4	5.4
Benefits	**13.6**	13.8	(1.4)
Bonus	**23.0**	18.6	23.6

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

Relative importance of the spend on pay

	2015	2014	% change
Staff costs (£m)	**24.0**	22.4	7.1
Distributions to shareholders (£m)	**45.0**	38.4	17.2
Net asset value[1] (£m)	**3,923**	3,012	30.2

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

Statement of shareholder voting

At the Company's 2015 AGM, the report of the Remuneration Committee received the following votes from shareholders:

	Annual report on remuneration	
2014 AGM	m	%
Votes cast in favour	**84.3**	**99.5**
Votes cast against	**0.4**	**0.5**
Total votes cast	**84.7**	**–**
Votes withheld	**0.6**	**–**

The Directors' remuneration policy was not voted on at the 2015 AGM.

The disclosures on Directors' remuneration in tables 1 to 5 on pages 105 to 110 have been audited as required by the Companies Act 2006.

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

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

SIMON FRASER
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder,

I am pleased to present the Committee's report for 2015.

During the year, the Committee's main activity was the recruitment of two non-executive Directors. This brought into focus a number of the Committee's key responsibilities relating to the maintenance of a stable and appropriately constituted Board. The first was to identify the skills that the new non-executives would need to possess for the Board to retain both the necessary skills and the required level and breadth of knowledge.

The second matter to consider was the diversity of the Board. The Committee had previously made a commitment to appoint at least one additional female director to the Board by 2015. Fulfilling this undertaking whilst preserving the Board's policy of only recruiting on merit was largely dependent on the candidates put forward by the executive search agency. In this instance the Committee appointed Spencer Stuart who subscribe to the Voluntary Code of Conduct for Executive Search Firms and they were instructed accordingly. Spencer Stuart has no other connection with the Company.

Once the new non-executives had been identified, the final matter to consider was their induction to the Company and its culture. Together with the Company's executives, the Committee arranged a comprehensive process that included meetings with the Group's auditor and corporate lawyer as well as visits to some of the Group's properties with members of staff. It is rewarding to note that in the latest Board and Committee appraisal exercise, the recruitment process was judged to have achieved its objectives.

Looking to next year, we expect the performance of Nominations Committees to receive more attention from the FRC following the publication of its discussion paper on UK Board Succession Planning and the launch of its Culture Project, both in October 2015. Guidance arising from these two projects is expected to be issued during 2016.

SIMON W.D. FRASER
CHAIRMAN OF THE NOMINATIONS COMMITTEE

25 FEBRUARY 2016

REPORT OF THE NOMINATIONS COMMITTEE

At the start of the year the Committee consisted of June de Moller, Simon Fraser and Richard Dakin under the chairmanship of Stuart Corbyn. Cilla Snowball joined the Committee in September 2015 and June de Moller stepped down at the end of the year. In January 2016, Simon Fraser took over chairmanship of the Committee. All members are considered independent by the Company having no day-to-day involvement with the Company.

Rules and responsibilities

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

Meetings

The Committee meets at least once a year to arrange for the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's responsibilities in connection with identifying and nominating new Board members. The Committee met twice in 2015.

Work of the Committee

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

- Led the annual appraisal of the Board, its Committees and the Chairman. The appraisal was carried out by Lintstock, an independent corporate advisory firm which provides no other services to the Group.
- Completed the recruitment of two non-executive Directors.
- Arranged a comprehensive induction process for the new non-executive Directors.
- Considered whether the Committee's recruitment procedure was adequate given the gender diversity matters raised in the UK Corporate Governance Code and by Lord Davies.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Reviewed the terms of reference for the Committee.
- Considered the results of the annual appraisal of the Committee's performance.

SIMON W.D. FRASER
CHAIRMAN OF THE NOMINATIONS COMMITTEE

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

RICHARD DAKIN
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Risk Committee for 2015.

Conditions in our central London market remained strong throughout 2015 and the political uncertainty caused by the pending UK general election that I mentioned last year was resolved. However, in terms of political risk, this has been replaced by the uncertainty now being created by the Brexit referendum and this, together with a number of external global factors, has caused the overall risk level to increase over the year. The nature of these external factors which include, amongst others, terrorism, a hard landing for the Chinese economy and cyber-attacks, means that we expect this level of risk to persist for at least the next year.

The Committee's work during the year was concentrated on two areas. The first of these was cyber security and the second was the Group's business continuity plan. At the start of the year an external firm of consultants produced a review of the Group's exposure to cyber security risk. This included a roadmap towards further improving our resilience to this type of risk. A timetable was agreed with the IT department for the implementation of these improvements and the Committee was kept informed of progress. At the year end, all of the key enhancements were in hand.

The update of the Group's business continuity plan was again facilitated by a third party. The exercise was initiated by a full business interruption assessment which formed the basis for the updated plan and the recovery times included therein. In November the plan was subject to a full live test which included successfully switching the Group's IT systems over to the back-up suite.

These risks are likely to remain at the top of the agenda through 2016 but in the first half of the year the Committee will be reviewing the internal reporting that is being introduced in response to the new monitoring requirements of the UK Corporate Governance Code following the 2014 update.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

25 FEBRUARY 2016

REPORT OF THE RISK COMMITTEE

The Committee was chaired by Richard Dakin and served by Stephen Young, June de Moller, John Burns and Damian Wisniewski throughout 2015. At the end of the year, June de Moller retired and Cilla Snowball joined the Committee.

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

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

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

- Reviewed the Group's risk register twice during the year and considered the top ten risks at each meeting.
- Received presentations from senior management concerning the controls over certain parts of the business or specific risks. The areas of focus were determined by the review of the top ten risks and key presentations covered cyber risk and cost control. The latter was considered particularly important by the Committee due to the level of capital expenditure planned for the next few years on the Group's development pipeline.
- Considered the operation of the Group's risk management process and non-financial internal controls.
- Oversaw the development and testing of the Group's Business Continuity Plan.
- Considered a report from the Group's legal advisers concerning potential regulatory risks over the next 12 months.
- Regularly reviewed the Group's quarterly register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Received training on the objectives and operation of Risk Committees in the light of the recent FRC guidance.
- Reviewed the Committee's terms of reference.
- Considered the content of the annual appraisal of the Committee's performance.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

STEPHEN YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the year ended 31 December 2015.

One of the Committee's key roles is to provide the Board with assurance that the financial statements give a true and fair view of the Group's financial affairs. This requires the Committee to consider a range of matters which evolve as changes are made to the UK Corporate Governance Code or as best practice develops. This year has seen two additions to the requirements.

First, this year the Committee has been required to consider and conclude on the Group's disclosure regarding the monitoring of its risk management and internal controls system. This requirement originated from the 2014 update of the Code and necessitated the Group implementing a number of additional procedures. One of these was to identify a number of key risk indicators which will be regularly reported upon and facilitate better continuous monitoring of the operation of the key controls.

The second new requirement originated from the same review of the Code and was adopted early by the Group last year. This involved publishing a viability statement. In forming its advice to the Board on this statement, the Committee has again reviewed the assumptions underlying this statement but also took into account the comments made by external advisers on last year's disclosure.

Long standing items for the Committee to review are the significant issues and areas of judgement which have the potential to have a material impact on the financial statements. Details of the Committee's work in this area can be found on page 116.

Finally, following their appointment in 2014, PricewaterhouseCoopers have now completed two audits of the Group. The Committee has carried out its assessment of the effectiveness of the audit as required by provision C.3.8 of the Code and concluded that they have again delivered a focused, challenging and high quality audit. Based on this review and that of PwC's independence, the Committee has recommended to the Board that the external auditor is reappointed for the year ending 31 December 2016.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

25 FEBRUARY 2016

REPORT OF THE AUDIT COMMITTEE

Membership
Throughout 2015, the Committee consisted of Stuart Corbyn, Simon Fraser and Richard Dakin under the chairmanship of Stephen Young. Claudia Arney joined the Committee in January 2016. All committee members are considered independent by the Board, having no day-to-day involvement with the Company and, with the exception of Stuart Corbyn, not having been with the Company for more than nine years. The Board's position regarding Stuart is discussed on page 85. Due to his position as Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, Richard Dakin does not take part in the Committee's considerations regarding the valuation of the Group's property portfolio.

Stephen Young is a qualified accountant and is considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise, at the Company's expense, if required.

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

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

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

- Reviewed the Group's annual report and accounts to consider whether, taken as a whole, they were fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy and advised the Board accordingly.

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

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

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

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

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

    These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.
  - Revenue recognition
    Review recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee identified that the recognition of profit arising from a transaction where profit is conditional on future performance could represent a transaction with elevated risk. The Committee sought explanations from management for both the treatment and assumptions adopted and was satisfied with the answers given. The Committee also discussed these with the auditor who concurred with the treatment.

    Taking all factors into consideration, the Committee was satisfied with management's approach, estimates and presentation.
  - Management override of internal control
    In the absence of an internal audit function, the Committee looks for external assurance on the operation of controls over certain parts of the business. This is achieved by instructing third parties (which may include the external auditor) to review the control environment in a particular area. The Committee remains satisfied with the level of assurance gained from this approach.

- Taxation and REIT compliance
  The Committee noted that, should the Group not comply with the REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee noted the frequency with which compliance with the regulations was reported to the Board and considered the margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts the Committee agreed that no further action was required for the current year.
- Borrowings and derivatives
  This was considered an area of elevated risk due to the conversion of the Group's 2.75% convertible bonds 2016 in January 2015. The Committee sought assurance from management regarding the accounting treatment of the conversion and was advised that the Group's corporate lawyers had advised both on the initial structure of the convertible bonds and the effect on the Group's reserves at the time of conversion. In addition, being a first half transaction, the accounting had been discussed and agreed with the auditor at the time of the Group's interim reporting. This was subsequently confirmed by the auditor. The Committee was satisfied with the level of assurance gained from these procedures.

- Monitored the integrity of the Group's interim and annual financial statements and the two business updates published during the year and reviewed the significant financial reporting judgements contained in them.
- Assessed the effectiveness of the external audit taking into account the views of both management and the auditor. It also reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its ability to respond to any changes in the business. Having considered all these matters the Committee has recommended to the Board that PwC be re-appointed as auditor to the Group.
- Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external auditor.
  In assessing this matter the Committee noted the following:
  - Each year the auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. This is provided after the auditor has considered the following matters:
    – Any relationships of which they are aware that, in their professional judgement, may reasonably be thought to bear on their independence and the objectivity of the audit engagement partner and staff.
    – Any services that the auditor has provided to the Group in addition to the audit of the consolidated financial statements.
    – The total amount of fees that the auditor has charged the Group for the provision of services during the reporting period.
    – The amounts of any future services that have been contracted for, or where a written proposal has been submitted.
  - The Company operates a policy under which the auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee. There have been no such appointments during 2015.
- Reviewed the terms of reference for the Committee.
- Considered the appropriateness of the Group's viability statement and going concern assumption and advised the Board accordingly.
- Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business, but that external assurance may be sought in particular areas identified as higher risk.
- Noted that the accounts for the Group's pension schemes had been audited and that no matters had been raised.

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

25 FEBRUARY 2016

INDEPENDENT AUDITOR'S REPORT

Report on the financial statements

Our opinion

In our opinion:

- Derwent London plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Report and Accounts (the 'Annual Report'), comprise:

- the balance sheets as at 31 December 2015;
- the Group income statement and Group statements of comprehensive income for the year then ended;
- the cash flow statements for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview

Materiality

- Overall Group materiality: £46.4 million (2014: £42.0 million) which represents 1% of total assets.
- Specific materiality: £4.0 million (2014: £4.0 million) applied to property and other income, administrative expenses, provisions and working capital balances.

Audit scope

- The Group audit team carries out the statutory audits of all components within the Group and the consolidation.

Areas of focus

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

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Valuation of investment properties Refer to page 116 (Report of the Audit Committee), pages 141 to 143 (Notes to the financial statements – Note 16) and page 170 (Significant accounting policies). The Group's investment properties were carried at £4,832.3 million as at 31 December 2015 and a revaluation gain of £650.0 million was accounted for under 'revaluation surplus' in the Group income statement. In excess of 99% of the value of the Group's investment property portfolio comprises offices and commercial space within central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland. Valuations are carried out by third party valuers in accordance with the RICS Valuation – Professional Standards and IAS 40. There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group. The Central London investment property portfolio mainly features office accommodation and includes: - Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method. - Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments because of the different assumptions applied. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a market based profit margin providing a return on development risk). The most significant judgments and estimates affecting the valuations using both the income capitalisation and residual value methods included yields and estimated rental value (ERV) growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation. Consistent with last year, yields and ERVs have moved favourably reflecting the buoyancy of the central London property market which has driven the significant increase in valuation over the year. The revaluation gain was also boosted by new lettings and significant progress on a number of development projects where further costs have been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	The valuers used by the Group are CBRE Limited for the central London portfolio and Savills for the remaining investment property portfolio in Scotland. They are well-known firms, with considerable experience of the Group's market. We assessed the competence and capabilities of the firms and verified their qualifications. We also assessed their independence by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the firms remain independent and competent and that the scope of their work was appropriate. We tested the data in the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them to the underlying property records held by the Group. The underlying property records were themselves tested back to signed and approved lease contracts or sale/purchase contracts and approved third party invoices as applicable. For the properties currently under development, we traced the costs to date included within development appraisals to quantity surveyor reports and confirmed that they were comparable to costs incurred on similar completed projects. We also agreed a sample of costs included in the quantity surveyor reports to supporting documentation. We met with the external valuers independently of management and obtained the valuation reports for all properties. We read the valuation reports and confirmed that the valuation approach for each was in accordance with RICS Valuation – Professional Standards and IAS 40 and suitable for use in determining the carrying value for the purpose of the financial statements. We involved our internal valuation specialists to compare the valuations of each property to our independently formed market expectations and to discuss and challenge the valuation methodology and assumptions. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on market indices. Consistent with last year, we identified the following assets for further testing: standing investments where the valuation fell outside the expected range; ongoing and planned development projects; high value assets over £100m; and acquisitions. In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for central London offices and assumptions appropriately reflected comparable market information. Where assumptions fell outside of our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate, and, whether this was robustly challenged by the external independent valuers where appropriate. Variances were predominantly due to property specific factors such as new lettings at higher rents, movements in ERV or yield to reflect market transactions in close proximity or the de-risking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate. We challenged the Directors on the upward movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Area of focus	How our audit addressed the area of focus
Compliance with REIT guidelines Refer to page 117 (Report of the Audit Committee) and page 131 (Significant judgements, key assumptions and estimates). The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of inadvertently breaching and the Group's profit becoming subject to tax.	We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules. We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs, which included the underlying financial information, and calculation. We involved our internal specialists to verify the accuracy of the application of the rules. We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.
Accounting for borrowings and derivatives Refer to page 117 (Report of the Audit Committee), pages 148 to 155 (Notes to the financial statements – Note 23) and page 171 (Significant accounting policies). The Group has secured and unsecured debt totalling £895.0 million (2014: £1,019.8 million). The debt includes unsecured convertible debt of £140.2 million (2014: £308.0 million) with an option for the Group to convert the debt when certain criteria have been met. On 17 December 2014, the Group exercised its option to redeem its £175m 2.75% 2016 convertible bonds, and on 30 January 2015 all bond holders elected to convert their debt to shares. The accounting for convertible debt can be complex and therefore is considered an area of audit focus. The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2015 by external valuers and the fair value was £17.6 million (2014: £25.2 million). The valuation of the swaps is based on market movements which can fluctuate significantly in the year and could have a material impact on the Group financial statements. The valuation also involves judgement and therefore is considered an area of audit focus.	We read the loan contracts to understand the terms and conditions. The carrying value of all debt was agreed to third party confirmations. In 2014, we obtained the convertible bond documentation and reviewed it to ensure we understood each of the clauses and the accounting impact of conversion. We obtained management's proposed accounting treatment for the Group and Company and checked that it was consistent with the convertible bond documentation and accounting standards. In 2015, we confirmed the proposed accounting treatment had been correctly applied. For derivatives, we agreed the carrying value to valuations obtained directly from the third party valuers, JC Rathbone Associates. We assessed the competence and capabilities of the external valuers by considering their qualifications and market experience. We involved our internal specialists who performed independent valuations to recalculate the value using independent market data. No material issues were identified in our work on the debt arrangements in place as at 31 December 2015.

How we tailored the audit scope

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

The Group's properties are spread across 26 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All parts of the Group, with the exception of one of the joint ventures, were identified as requiring an audit of their complete financial information, either due to their size or their risk characteristics or statutory requirement. This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Materiality

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

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

Overall Group materiality	£46.4 million (2014: £42.0 million).
How we determined it	1% of total assets.
Specific materiality	£4.0 million (2014: £4.0 million)
How we determined it	Based on 5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality for testing property and other income, administrative expenses, provisions and working capital balances.

We agreed with the Audit Committee to cap specific materiality at £4.0 million and that we would report to them misstatements identified during our audit above £2.3 million (2014: £2.1 million) for financial statement line items where overall materiality applied and £0.2 million (2014: £0.2 million) for line items where specific materiality applied, as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 92, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

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

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

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Other required reporting
Consistency of other information
Companies Act 2006 opinions
In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
■ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
■ the statement given by the Directors on page 90, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
■ the section of the Annual Report on page 116, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
■ the Directors' confirmation on page 90 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
■ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
■ the Directors' explanation on page 77 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 83, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

CRAIG HUGHES
(SENIOR STATUTORY AUDITOR)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 FEBRUARY 2016

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In 2015, Derwent London delivered recurring earnings and dividend growth while adding value to the business and reducing financial risk.

362%
Net interest cover

17.8%
Loan-to-value

Tottenham Court Walk W1

GROUP INCOME STATEMENT

for the year ended 31 December 2015

	Note	2015 £m	2014 £m
Gross property and other income	5	**204.9**	180.5
Net property and other income	5	**148.6**	136.1
Administrative expenses		**(30.0)**	(28.1)
Movement in valuation of cash-settled share options		**–**	(0.3)
Total administrative expenses		**(30.0)**	(28.4)
Revaluation surplus	16	**650.0**	667.1
Profit on disposal of investment property	6	**40.2**	28.2
Profit on disposal of investment in joint venture	6	**–**	2.0
Profit from operations		**808.8**	805.0
Finance income	7	**0.1**	–
Finance costs		**(34.9)**	(42.4)
Loan arrangement costs written off		**(0.3)**	–
Total finance costs	7	**(35.2)**	(42.4)
Movement in fair value of derivative financial instruments		**7.6**	(9.4)
Financial derivative termination costs	8	**(6.4)**	(2.0)
Share of results of joint ventures	9	**4.6**	2.5
Profit before tax	10	**779.5**	753.7
Tax charge	15	**(2.3)**	(3.9)
Profit for the year		**777.2**	749.8
Attributable to:			
Equity shareholders	28	**766.2**	737.7
Non-controlling interest		**11.0**	12.1
Earnings per share	37	**694.53p**	718.60p
Diluted earnings per share	37	**668.73p**	647.78p

The notes on pages 130 to 171 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	2015 £m	2014 £m
Profit for the year		**777.2**	749.8
Actuarial gains/(losses) on defined benefit pension scheme	14	**0.7**	(1.6)
Revaluation surplus of owner-occupied property	16	**1.4**	4.8
Deferred tax on revaluation surplus	25	**(0.1)**	(0.9)
Other comprehensive income that will not be reclassified to profit or loss		**2.0**	2.3
Total comprehensive income relating to the year		**779.2**	752.1
Attributable to:			
Equity shareholders		**768.2**	740.0
Non-controlling interest		**11.0**	12.1
		779.2	752.1

The notes on pages 130 to 171 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2015

	Note	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Non-current assets					
Investment property	16	**4,832.3**	4,041.0	**–**	–
Property, plant and equipment	17	**39.1**	27.2	**2.3**	1.6
Investments	18	**30.7**	7.4	**1,185.4**	1,184.6
Deferred tax	25	**–**	–	**3.2**	2.2
Pension scheme surplus	14	**1.1**	–	**1.1**	–
Other receivables	19	**90.7**	78.9	**–**	–
		4,993.9	4,154.5	**1,192.0**	1,188.4
Current assets					
Trading property	16	**10.5**	24.0	**–**	–
Trade and other receivables	20	**52.7**	32.0	**1,389.9**	1,282.1
Corporation tax asset		**–**	0.2	**–**	0.8
Cash and cash equivalents	30	**6.5**	14.8	**5.6**	14.2
		69.7	71.0	**1,395.5**	1,297.1
Total assets		**5,063.6**	4,225.5	**2,587.5**	2,485.5
Current liabilities					
Borrowings	23	**–**	170.5	**–**	170.5
Trade and other payables	21	**124.0**	89.8	**458.3**	348.0
Corporation tax liability		**1.7**	–	**0.4**	–
Provisions	22	**0.7**	0.8	**0.7**	0.8
		126.4	261.1	**459.4**	519.3
Non-current liabilities					
Borrowings	23	**918.2**	857.6	**678.1**	631.5
Derivative financial instruments	23	**17.6**	25.2	**15.6**	22.7
Provisions	22	**0.5**	0.7	**0.5**	0.7
Pension scheme deficit	14	**–**	0.2	**–**	0.2
Deferred tax	25	**5.5**	5.0	**–**	–
		941.8	888.7	**694.2**	655.1
Total liabilities		**1,068.2**	1,149.8	**1,153.6**	1,174.4
Total net assets		**3,995.4**	3,075.7	**1,433.9**	1,311.1
Equity					
Share capital	26	**5.6**	5.1	**5.6**	5.1
Share premium	27	**186.3**	174.0	**186.3**	174.0
Other reserves	27	**952.9**	952.5	**929.1**	936.9
Retained earnings	27	**2,777.7**	1,880.6	**312.9**	195.1
Equity shareholders' funds		**3,922.5**	3,012.2	**1,433.9**	1,311.1
Non-controlling interest		**72.9**	63.5	**–**	–
Total equity		**3,995.4**	3,075.7	**1,433.9**	1,311.1

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2016.

JOHN D. BURNS
DIRECTOR

DAMIAN M.A. WISNIEWSKI
DIRECTOR

The notes on pages 130 to 171 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Group							
At 1 January 2015	5.1	174.0	952.5	1,880.6	3,012.2	63.5	3,075.7
Profit for the year	–	–	–	766.2	766.2	11.0	777.2
Other comprehensive income	–	–	1.3	0.7	2.0	–	2.0
Transfer of owner-occupied property	–	–	6.9	(6.9)	–	–	–
Share-based payments	–	1.3	1.6	2.6	5.5	–	5.5
Bond conversion	0.5	–	(9.4)	179.5	170.6	–	170.6
Dividends paid	–	–	–	(34.0)	(34.0)	(1.6)	(35.6)
Scrip dividends	–	11.0	–	(11.0)	–	–	–
At 31 December 2015	**5.6**	**186.3**	**952.9**	**2,777.7**	**3,922.5**	**72.9**	**3,995.4**
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
Company							
At 1 January 2015	5.1	174.0	936.9	195.1	1,311.1	–	1,311.1
Loss for the year	–	–	–	(20.0)	(20.0)	–	(20.0)
Other comprehensive income	–	–	–	0.7	0.7	–	0.7
Bond conversion	0.5	–	(9.4)	179.5	170.6	–	170.6
Share-based payments	–	1.3	1.6	2.6	5.5	–	5.5
Dividends paid	–	–	–	(34.0)	(34.0)	–	(34.0)
Scrip dividends	–	11.0	–	(11.0)	–	–	–
At 31 December 2015	**5.6**	**186.3**	**929.1**	**312.9**	**1,433.9**	**–**	**1,433.9**
At 1 January 2014	5.0	170.4	651.4	266.1	1,092.9	–	1,092.9
Profit for the year	–	–	–	251.6	251.6	–	251.6
Other comprehensive income	–	–	–	(1.6)	(1.6)	–	(1.6)
Share-based payments	0.1	1.5	–	2.9	4.5	–	4.5
Transfer between reserves[2]	–	–	285.5	(285.5)	–	–	–
Dividends paid	–	–	–	(36.3)	(36.3)	–	(36.3)
Scrip dividends	–	2.1	–	(2.1)	–	–	–
At 31 December 2014	5.1	174.0	936.9	195.1	1,311.1	–	1,311.1

[1] See note 27.

[2] The amounts relate to the reversal of the impairment of the Company's investment in London Merchant Securities Ltd.

The notes on pages 130 to 171 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2015

	Note	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Operating activities					
Property income		**145.6**	135.2	**–**	–
Property expenses		**(11.7)**	(8.1)	**–**	–
Cash paid to and on behalf of employees		**(21.5)**	(21.7)	**(21.5)**	(20.4)
Other administrative expenses		**(5.2)**	(5.3)	**(5.8)**	(5.9)
Interest received		**0.1**	–	**0.1**	–
Interest paid	7	**(31.4)**	(31.0)	**(19.8)**	(17.2)
Other finance costs		**(3.0)**	(3.0)	**(1.9)**	(2.5)
Other income		**3.1**	1.7	**3.0**	1.6
Amounts received from joint ventures		**–**	0.1	**–**	–
Tax paid in respect of operating activities		**–**	(2.3)	**–**	(0.4)
Net cash from/(used in) operating activities		**76.0**	65.6	**(45.9)**	(44.8)
Investing activities					
Acquisition of investment properties		**(246.2)**	(92.4)	**–**	–
Capital expenditure on the property portfolio	7	**(116.4)**	(113.2)	**–**	–
Disposal of investment and trading properties		**277.2**	114.4	**–**	–
Disposal of investment in joint venture		**–**	4.9	**–**	–
Repayment of loan by joint venture on disposal		**–**	1.9	**–**	–
Purchase of property, plant and equipment		**(0.9)**	(0.3)	**(0.9)**	(0.3)
Advances to non-controlling interest		**–**	(2.0)	**–**	–
Net cash used in investing activities		**(86.3)**	(86.7)	**(0.9)**	(0.3)
Financing activities					
Drawdown of new revolving bank loan		**45.8**	–	**45.8**	–
Net movement in intercompany loans		**–**	–	**34.6**	25.0
Net movement in revolving bank loan		**66.3**	(38.9)	**66.3**	(38.9)
Repayment of term loan		**(70.0)**	–	**(70.0)**	–
Drawdown of private placement notes		**–**	99.0	**–**	99.0
Financial derivative termination costs		**(6.4)**	(2.0)	**(6.4)**	(2.0)
Net proceeds of share issues	26	**1.2**	1.5	**1.2**	1.5
Dividends paid to non-controlling interest		**(1.6)**	–	**–**	–
Dividends paid	29	**(33.3)**	(36.2)	**(33.3)**	(36.2)
Net cash from financing activities		**2.0**	23.4	**38.2**	48.4
(Decrease)/increase in cash and cash equivalents in the year		**(8.3)**	2.3	**(8.6)**	3.3
Cash and cash equivalents at the beginning of the year		**14.8**	12.5	**14.2**	10.9
Cash and cash equivalents at the end of the year	30	**6.5**	14.8	**5.6**	14.2

The notes on pages 130 to 171 form part of these financial statements.

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRS IC 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

The Board continues to adopt the going concern basis in preparing these consolidated financial statements.

2 Changes in accounting policies

The principal accounting policies are described in note 40 and are consistent with those applied in the Group's financial statements for the year to 31 December 2014, 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 2015 year end and had no material impact on the financial statements:

Annual Improvements to IFRSs (2011 – 2013 Cycle).

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 16 Leases;
IAS 1 (amended) – Presentation of Financial Statements;
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); and
Annual Improvements to IFRSs (2014).

In addition to the above, IFRS 15 Revenue from Contracts with Customers was in issue at the date of approval of these financial statements but was not yet effective for the current accounting year and has not been adopted early. The Group has not yet completed its evaluation of the effect of its adoption.

3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The Group's significant accounting policies are stated in note 40. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements.

Property portfolio valuation

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

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

As a consequence of the Group's REIT status, income and chargeable gains on the qualifying property rental business are exempt from corporation tax.

In order for the Group to remain in the REIT regime, it is subject to a number of criteria that it must meet in each accounting period. The Group comfortably met all the criteria in 2015 ensuring our REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. Such income includes development fees, interest income, sale of trading properties and our interest in unelected joint ventures.

The Group has maintained its low risk rating with HMRC due to the continued regular dialogue we maintain with them and our transparent approach.

Outstanding rent reviews

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

Contingent consideration

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

4 Segmental information

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

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 37. 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 94% office buildings[1] by value at 31 December 2015 (2014: 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 6% (2014: 7%) represented a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

4 Segmental information (continued)

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the strategic report. The majority of the Group's properties are located in London (West End central, West End borders and City borders), with the remainder in Scotland (Provincial).

Gross property income

	2015			2014		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	82.5	4.0	**86.5**	80.5	3.7	84.2
West End borders	15.8	0.2	**16.0**	13.4	0.3	13.7
City borders	44.6	0.2	**44.8**	35.6	0.2	35.8
Provincial	–	4.7	**4.7**	–	4.7	4.7
	142.9	9.1	**152.0**	129.5	8.9	138.4

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

Property portfolio

	2015			2014		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,601.4	180.3	**2,781.7**	2,289.4	153.2	2,442.6
West End borders	422.9	15.9	**438.8**	364.4	15.6	380.0
City borders	1,555.7	6.4	**1,562.1**	1,164.0	5.4	1,169.4
Provincial	–	96.3	**96.3**	–	97.8	97.8
	4,580.0	298.9	**4,878.9**	3,817.8	272.0	4,089.8
Fair value						
West End central	2,633.8	184.1	**2,817.9**	2,322.3	159.7	2,482.0
West End borders	442.8	15.9	**458.7**	385.2	15.5	400.7
City borders	1,571.4	6.4	**1,577.8**	1,178.0	5.4	1,183.4
Provincial	–	100.1	**100.1**	–	102.0	102.0
	4,648.0	306.5	**4,954.5**	3,885.5	282.6	4,168.1

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

5 Property and other income

	2015 £m	2014 £m
Gross rental income	**148.3**	136.7
Surrender premiums received	**–**	0.1
Other property income	**3.7**	1.6
Gross property income	**152.0**	138.4
Trading property sales proceeds	**24.5**	15.7
Service charge income	**25.8**	24.4
Other income	**2.6**	2.0
Gross property and other income	**204.9**	180.5
Gross rental income	**148.3**	136.7
Ground rent	**(0.4)**	(0.4)
Service charge income	**25.8**	24.4
Service charge expenses	**(27.7)**	(25.6)
	(1.9)	(1.2)
Other property costs	**(7.3)**	(6.4)
Net rental income	**138.7**	128.7
Trading property sales proceeds	**24.5**	15.7
Trading property cost of sales	**(21.3)**	(11.8)
Profit on trading property disposals	**3.2**	3.9
Other property income	**3.7**	1.6
Other income	**2.6**	2.0
Other costs	**(0.3)**	–
Surrender premiums received	**–**	0.1
Reverse surrender premiums	**–**	(0.4)
Dilapidation receipts	**0.7**	0.2
Net property and other income	**148.6**	136.1

Included within rental income is £0.3m (2014: £1.5m) of income which was derived from a lease at one of the Group's buildings where the Group entered into an arrangement 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 £11.6m (2014: £7.0m) relating to rents recognised in advance of the cash receipts.

In 2015, other property income relates to compensation received from contractors in connection with the late delivery of pre-let schemes under fixed price contracts and recognised during the year. The comparative in 2014 related to a rights of light settlement. Other income in both years 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

	2015 £m	2014 £m
Investment property		
Gross disposal proceeds	**259.3**	100.6
Costs of disposal	**(2.7)**	(1.6)
Net disposal proceeds	**256.6**	99.0
Carrying value	**(215.4)**	(70.3)
Adjustment for rents recognised in advance	**(1.0)**	(0.5)
Profit on disposal of investment property	**40.2**	28.2
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	**40.2**	30.2

In February 2015, the Group entered into a property swap with LaSalle Investment Management. This resulted in the disposal of two properties and the transfer of 9 and 16 Prescot Street E1 to a 50:50 joint venture in exchange for the acquisition of 20 Farringdon Road EC1 and cash proceeds. The carrying value of Prescot Street at the date of disposal was £36.2m and the fair value at that date was £37.4m. 50% (£18.1m) was disposed of for cash proceeds of £18.7m, resulting in a profit on disposal of £0.6m, which is included in the £40.2m profit on disposal shown above. The remaining 50% was transferred to investments (see note 18) in exchange for a loan of £18.7m.

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 in 2014 was £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.

7 Finance income and costs

	2015 £m	2014 £m
Finance income		
Other	**0.1**	–
Total finance income	**0.1**	–
Finance costs		
Bank loans and overdraft	**12.5**	12.7
Non-utilisation fees	**1.5**	2.3
Unsecured convertible bonds	**4.0**	10.4
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**4.6**	4.5
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.3**	3.3
Amortisation of the fair value of the secured bonds	**(1.0)**	(0.9)
Finance lease costs	**1.1**	0.5
Other	**0.2**	0.2
Gross interest costs	**39.9**	47.7
Less: finance costs capitalised	**(5.0)**	(5.3)
Finance costs	**34.9**	42.4
Loan arrangement costs written off	**0.3**	–
Total finance costs	**35.2**	42.4

Finance costs of £5.0m (2014: £5.3m) 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 2015 were £36.4m (2014: £36.3m) of which £5.0m (2014: £5.3m) 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 one of the Group's bank facilities in July 2015, £0.3m of unamortised arrangement costs associated with the previous facility repaid were written off to the Group income statement in 2015. In accordance with EPRA guidance, these costs have been excluded from EPRA profit and earnings (see note 37).

8 Financial derivative termination costs

The Group incurred costs of £4.0m in 2015 to terminate and re-coupon interest rate swaps and £2.4m to defer the start date of a 'forward start' swap.

In 2014, the Group incurred costs of £2.0m deferring the start dates of two 'forward start' interest rate swaps.

9 Share of results of joint ventures

	2015 £m	2014 £m
Revaluation surplus	**3.6**	1.9
Other profit from operations after tax	**1.0**	0.6
	4.6	2.5

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

10 Profit before tax

	2015 £m	2014 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.4**	0.3
Contingent rent payable under property finance leases	**0.4**	0.4
Auditor's remuneration		
Audit – Group	**0.3**	0.2
Audit – subsidiaries	**0.1**	0.1

Details of the Auditor's independence are included on page 117.

11 Directors' emoluments

	2015 £m	2014 £m
Remuneration for management services	**5.4**	6.3
Share-based payments	**4.1**	3.5
Post-employment benefits	**0.6**	0.5
	10.1	10.3
National insurance contributions	**1.4**	1.4
	11.5	11.7

Included within the figures shown in note 12 below are amounts recognised in the Group income statement, in accordance with IFRS 2 Share-based Payment, relating to the Directors. 2015 included expenses of £4.9m (2014: £3.8m) relating to equity-settled share options and deferred bonus shares. 2014 also included £0.3m relating to cash-settled share options.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 96 to 112. The only key management personnel are the Directors.

12 Employees

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Staff costs, including those of Directors:				
Wages and salaries	**15.0**	14.5	**14.9**	14.3
Social security costs	**2.2**	2.1	**2.1**	2.1
Pension costs	**1.8**	1.6	**1.9**	1.6
Share-based payments expense relating to equity-settled schemes	**5.0**	3.9	**5.0**	3.9
Share-based payments expense relating to cash-settled schemes	**–**	0.3	**–**	–
	24.0	22.4	**23.9**	21.9

The monthly average number of employees in the Group during the year, excluding Directors, was 100 (2014: 98). The monthly average number of employees in the Company during the year, excluding Directors, was 82 (2014: 81). All were employed in administrative roles. Of the Group employees there were 14 (2014: 13) whose costs were recharged to tenants.

13 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 96 to 112, other than the employee share plan that is detailed below.

Group and Company – equity-settled option scheme

This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 96 to 112. The Directors are not entitled to any awards under this scheme.

	Exercise price £	Date from which exercisable	Expiry date	Number of options
	6.10	18/03/2012	17/03/2019	9,520
	13.20	18/03/2013	17/03/2020	21,840
	16.60	25/03/2014	24/03/2021	81,250
	17.19	12/04/2015	11/04/2022	96,250
	21.99	10/04/2016	09/04/2023	95,500
Outstanding at 1 January 2014				304,360
Options granted during the year	27.39	07/04/2017	06/04/2024	100,000
Options exercised	6.10			(3,980)
Options exercised	13.20			(18,840)
Options exercised	16.60			(74,925)
Options lapsed	17.19			(1,500)
Options lapsed	21.99			(4,750)
Options lapsed	27.39			(2,500)
Options lapsed during the year				(8,750)
Outstanding at 31 December 2014				297,865
Options granted during the year	34.65	30/03/2018	29/03/2025	76,000
Options exercised	6.10			(3,075)
Options exercised	13.20			(3,000)
Options exercised	16.60			(1,125)
Options exercised	17.19			(66,070)
Options lapsed	21.99			(4,000)
Options lapsed	27.39			(4,150)
Options lapsed during the year				(8,150)
Outstanding at 31 December 2015				**292,445**

	31 December 2015	31 December 2014	1 January 2014
Number of shares:			
Exercisable	**36,345**	14,865	31,360
Non-exercisable	**256,100**	283,000	273,000
Weighted average exercise price of share options:			
Exercisable	**£16.35**	£12.00	£11.04
Non-exercisable	**£27.72**	£22.24	£18.69
Weighted average remaining contracted life of share options:			
Exercisable	**6.05 years**	5.62 years	6.05 years
Non-exercisable	**8.23 years**	8.29 years	8.32 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**–**	–	–
Non-exercisable	**£26.28**	£22.71	£15.99

The weighted average share price at which options were exercised during 2015 was £36.15 (2014: £28.08).

The following information is relevant in the determination of the fair value of the options granted during 2015 and 2014 under the equity-settled employee share plan operated by the Group.

	2015	2014
Option pricing model used	**Binominal lattice**	Binominal lattice
Risk free interest rate	**1.1%**	1.7%
Volatility	**21.0%**	24.0%
Dividend yield	**1.1%**	1.3%

For both the 2015 and 2014 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured as the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

Group – cash-settled option scheme

All options relating to the cash-settled option scheme arose as a result of the acquisition of London Merchant Securities plc. All outstanding options were exercised during 2014.

14 Pension costs

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group companies.

Defined contribution plan

The total expense relating to this plan in the current year was £1.0m (2014: £0.9m).

Defined benefit plan

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions are invested in a Managed Fund Policy with F&C Fund Management Limited, Legal and General Investment Management Limited and Ruffer LLP plus annuity policies held in the name of the scheme.

The Group sponsors the plan which is a funded defined benefit arrangement. This is a separate trustee administered fund holding the pension plan assets to meet long-term pension liabilities for some 66 past and four present employees as at 31 October 2013, the last date at which the scheme actuary carried out a full valuation. The level of retirement benefit is principally based on basic salary at the last scheme anniversary of employment prior to leaving active service and is linked to changes in inflation up to retirement.

The plan is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the FRC, set out the framework for funding defined benefit occupational pension plans in the UK.

The trustees of the plan are required to act in the best interest of the plan's beneficiaries. The appointment of the trustees is determined by the plan's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 October 2013 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between the Group and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best, estimate actuarial assumptions.

This actuarial valuation showed a deficit of £4.9m. The Group has agreed with the trustees that it will aim to eliminate the deficit over a period of seven years from 31 October 2013 by the payment of a one-off contribution of £0.5m before 31 December 2013 and annual contributions of £0.6m payable by each 31 December from 31 December 2014 to 31 December 2019 inclusive, with the deficit being cleared by 31 October 2020. In addition, and in accordance with the actuarial valuation, the Group has agreed with the trustees that it will pay 65.5% of pensionable salaries including member contributions in respect of the cost of accruing benefits and will meet expenses of the plan, DIS premiums and levies to the Pension Protection Fund.

For the purposes of IAS19 the actuarial valuation as at 31 October 2013, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2015. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

Amounts included in the balance sheet

	2015 £m	2014 £m	2013 £m
Fair value of plan assets	**13.7**	14.9	12.2
Present value of defined benefit obligation	**(12.6)**	(15.1)	(11.1)
Surplus/(deficit) in scheme	**1.1**	(0.2)	1.1
Impact of asset ceiling	**–**	–	(0.3)
Net asset/(liability)	**1.1**	(0.2)	0.8

The present value of the plan liabilities is measured by discounting the best estimate of the future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is reflected in the net asset in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of the disclosures, allowance has been made for future statutory revaluation of benefits up to retirement for deferred pensioners but not for active members. At the balance sheet date the accumulated benefit obligation was £12.6m (2014: £15.1m).

All actuarial gains and losses are recognised in the year in which they occur in other comprehensive income.

Reconciliation of the impact of the asset ceiling

	2015 £m	2014 £m
Impact of asset ceiling at start of year	**–**	0.3
Actuarial gains on asset ceiling	**–**	(0.3)
Impact of asset ceiling at end of the year	**–**	–

The Group has reviewed the implications of the guidance provided by IFRIC 14 and has concluded that it is not necessary to make adjustments to the IAS19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2015.

14 Pension costs (continued)

Reconciliation of the opening and closing present value of the defined benefit obligation

	2015 £m	2014 £m
At 1 January	**15.1**	11.1
Current service cost	**0.1**	0.1
Interest cost	**0.5**	0.5
Actuarial losses due to scheme experience	**0.1**	0.1
Actuarial (gains)/losses due to changes in demographic assumptions	**(0.2)**	0.1
Actuarial (gains)/losses due to changes in financial assumptions	**(1.0)**	3.2
Benefits paid, death in service premiums and expenses	**(2.0)**	–
At 31 December	**12.6**	15.1

There have been no plan amendments, curtailments or settlements in the year.

Reconciliation of opening and closing values of the fair value of plan assets

	2015 £m	2014 £m
At 1 January	**14.9**	12.2
Interest income	**0.5**	0.5
Return on plan assets (excluding amounts included in interest income)	**(0.4)**	1.5
Contributions by the Group	**0.7**	0.7
Benefits paid, death in service premiums and expenses	**(2.0)**	–
At 31 December	**13.7**	14.9

The actual return on the plan assets over the year was £0.1m (2014: £2.0m).

Defined benefit costs recognised in the income statement

	2015 £m	2014 £m
Current service cost	**0.1**	0.1

Amounts recognised in other comprehensive income

	2015 £m	2014 £m
(Loss)/gain on plan assets (excluding amounts recognised in net interest cost)	**(0.4)**	1.5
Experience losses arising on the defined benefit obligation	**(0.1)**	(0.1)
Gain/(loss) from changes in the demographic assumptions underlying the present value of the defined benefit obligation	**0.2**	(0.1)
Gain/(loss) from changes in the financial assumptions underlying the present value of the defined benefit obligation	**1.0**	(3.2)
Gain/(loss) from total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	**0.7**	(1.9)
Gain from the effect of the asset ceiling	**–**	0.3
Total recognised in other comprehensive income	**0.7**	(1.6)

Fair value of plan assets

	2015 £m	2014 £m	2013 £m
UK equities	**0.5**	0.6	0.5
Overseas equities	**0.5**	0.6	0.6
Government bonds	**2.8**	3.0	2.4
Cash	**0.8**	0.7	0.6
Other	**9.1**	10.0	8.1
Total assets	**13.7**	14.9	12.2

The £9.1m in the 'Other' asset class is made up of holdings of £4.0m in equity-linked gilt funds and £5.1m in absolute return funds.

None of the fair values of the assets shown above include any directly held financial instruments of the Group or property occupied by, or other assets used by, the Group. All of the scheme assets have a quoted market price in an active market (with the exception of the Trustee's bank account balance) representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2015.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2015 %	2014 %	2013 %
Discount rate	**3.95**	3.65	4.60
Inflation (RPI)	**3.30**	3.20	3.50
Salary increases	**4.80**	4.70	5.00
Allowance for commutation of pension for cash at retirement	**75% of Post A Day Pension**	75% of Post A Day Pension	75% of Post A Day Pension

The post-retirement mortality assumption used is 80% of the second series of standard self-administered pension scheme (SAPS) mortality tables projected by year of birth with a long-term rate of improvement in line with the Continuous Mortality Investigation 2015 projections at a rate of 1.25% pa. These imply the following life expectancies:

Life expectancy at age 65

	Years
Male retiring in 2015	23.9
Female retiring in 2015	25.9
Male retiring in 2035	25.6
Female retiring in 2035	27.8

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% pa	Increase by 6.5%
Inflation (RPI)	Increase of 0.25% pa	Increase by 0.3%
Salary increases	Increase of 0.25% pa	Increase by 0.3%
Rate of mortality	Increase in life expectancy of one year	Increase by 2.9%
Allowance for commutation of pension for cash at retirement	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 1.4%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth. The average duration of the defined benefit obligation at the year ended 31 December 2015 is 26 years.

The plan typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase in plan liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in the income statement. This effect would be partially offset by an increase in the value of the plan's bond holdings, and in qualifying death in service insurance policies that cover the mortality risk.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2016 is £0.7m.

15 Tax charge

	2015 £m	2014 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**1.8**	0.8
Other adjustments in respect of prior years' tax	**0.1**	–
Corporation tax charge	**1.9**	0.8
Deferred tax		
Origination and reversal of temporary differences	**0.4**	3.2
Adjustment for changes in estimates	**–**	(0.1)
Deferred tax charge	**0.4**	3.1
Tax charge	**2.3**	3.9

In addition to the tax charge of £2.3m (2014: £3.9m) that passed through the Group income statement, a deferred tax charge of £0.1m (2014: £0.9m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2015 is lower (2014: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2015 £m	2014 £m
Profit before tax	**779.5**	753.7
Expected tax charge based on the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)[1]	**157.8**	162.0
Difference between tax and accounting profit on disposals	**(8.3)**	(5.1)
REIT exempt income	**(8.8)**	(9.8)
Revaluation surplus attributable to REIT properties	**(132.3)**	(143.4)
Expenses and fair value adjustments not allowable for tax purposes	**(3.6)**	0.9
Capital allowances	**(3.9)**	(3.6)
Origination and reversal of temporary differences	**0.4**	3.2
Other differences	**0.9**	(0.3)
Tax charge in respect of profit for the year	**2.2**	3.9
Adjustments in respect of prior years' tax	**0.1**	–
	2.3	3.9

[1] The Finance Act 2015 set the main rate of UK corporation tax at 20% with effect from 1 April 2015. Finance (No.2) Act 2015 has introduced further reductions in the main corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020.

16 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
Group						
Carrying value						
At 1 January 2015	3,464.3	576.7	4,041.0	24.8	24.0	4,089.8
Acquisitions	145.8	105.8	251.6	–	–	251.6
Capital expenditure	69.1	44.8	113.9	0.1	6.8	120.8
Interest capitalisation	4.0	0.8	4.8	–	0.2	5.0
Additions	218.9	151.4	370.3	0.1	7.0	377.4
Disposals	(214.7)	(0.7)	(215.4)	–	(20.5)	(235.9)
Transfer to joint venture	(18.7)	–	(18.7)	–	–	(18.7)
Transfers	(9.8)	–	(9.8)	9.8	–	–
Revaluation	566.8	83.2	650.0	1.4	–	651.4
Movement in grossing up of headlease liabilities	–	14.9	14.9	–	–	14.9
At 31 December 2015	**4,006.8**	**825.5**	**4,832.3**	**36.1**	**10.5**	**4,878.9**
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
Adjustments from fair value to carrying value						
At 31 December 2015						
Fair value	**4,095.2**	**810.9**	**4,906.1**	**36.1**	**12.3**	**4,954.5**
Revaluation of trading property	–	–	–	–	(1.8)	(1.8)
Lease incentives and costs included in receivables	(88.4)	(8.6)	(97.0)	–	–	(97.0)
Grossing up of headlease liabilities	–	23.2	23.2	–	–	23.2
Carrying value	**4,006.8**	**825.5**	**4,832.3**	**36.1**	**10.5**	**4,878.9**
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

Reconciliation of fair value

	2015 £m	2014 £m
Portfolio including the Group's share of joint ventures	**4,988.5**	4,178.6
Joint ventures	**(34.0)**	(10.5)
IFRS property portfolio	**4,954.5**	4,168.1

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2015 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £4,924.8m (2014: £4,135.2m) and other valuers at £29.7m (2014: £32.9m). Of the properties revalued by CBRE, £36.1m (2014: £24.8m) relating to owner-occupied property was included within property, plant and equipment and £12.3m (2014: £29.1m) 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.

In February 2015, the Group entered into a property swap, further details of which are provided in note 6. The carrying value of 9 and 16 Prescot Street E1 at the date of disposal was £36.2m, and 50% of this is shown within the £235.9m of disposals above, reflecting the sale to our partner. The fair value at the date of disposal was £37.4m, and 50% of this is the £18.7m shown as transfer to joint venture above, reflecting the 50% retained by the Group.

16 Property portfolio (continued)

During 2009, certain freehold properties owned by the Group were compulsorily purchased by the Secretary of State for Transport close to the proposed Tottenham Court Road Crossrail station. The Group retained a pre-emption right for first refusal on any subsequent disposal of the site. In July 2015, a development agreement was signed whereby the Group can gain access to redevelop the site once the station has been completed. A long leasehold interest in the site will be granted to the Group upon practical completion of its office, theatre and retail development, which has received planning permission. Costs of £7.3m were incurred by the Group up to 31 December 2015 and, in accordance with IAS 40 Investment Property, an investment property has been recognised during the year, which was subsequently revalued at the balance sheet date. A further £3.7m of recoverable costs have been recognised in long-term receivables.

Reconciliation of revaluation surplus

	2015 £m	2014 £m
Total revaluation surplus	**672.2**	685.7
Share of joint ventures	**(3.6)**	(1.9)
Lease incentives and costs	**(16.4)**	(8.0)
Trading property revaluation surplus	**(0.3)**	(3.9)
Other	**(0.5)**	–
IFRS revaluation surplus	**651.4**	671.9
Reported in the:		
Group income statement	**650.0**	667.1
Group statement of comprehensive income	**1.4**	4.8
	651.4	671.9

Valuation process

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

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

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

Valuation techniques

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

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

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

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2015 or 2014.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £650.0m (2014: £667.1m) and are presented in the Group income statement in the line item 'revaluation surplus'. The revaluation surplus for the owner-occupied property of £1.4m (2014: £4.8m) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2015 and 2014 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2015 and 31 December 2014, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m)[2]	2,818.0	471.0	1,599.4	69.9	30.2	4,988.5
Area ('000 sq ft)	3,192	584	2,053	340	–	6,169
Range of unobservable inputs:						
Gross ERV (per sq ft pa)						
Minimum	£13	£9	£10	£8	n/a[1]	
Maximum	£166	£53	£59	£15	n/a[1]	
Weighted average	£50	£41	£45	£14	n/a[1]	
Net initial yield						
Minimum	0.0%	0.0%	0.0%	5.9%	0.0%	
Maximum	4.5%	4.8%	6.2%	11.0%	9.9%	
Weighted average	2.6%	3.6%	2.3%	5.9%	1.8%	
Reversionary yield						
Minimum	2.5%	3.0%	3.9%	6.0%	0.0%	
Maximum	8.5%	5.7%	6.6%	12.7%	9.9%	
Weighted average	4.7%	4.8%	5.1%	6.1%	2.0%	
True equivalent yield (EPRA)						
Minimum	2.5%	4.9%	4.1%	6.2%	0.0%	
Maximum	5.2%	5.4%	5.9%	12.6%	10.9%	
Weighted average	4.3%	5.0%	4.7%	6.3%	1.8%	

[1] There is no calculation of gross ERV per sq ft pa. The land totals 5,279 acres.
[2] Includes the Group's share of joint ventures.

Sensitivity of measurement to variations in the significant unobservable inputs

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

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

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

A sensitivity analysis was performed to ascertain the impact on the fair value of a 25 basis point shift in true equivalent yield and a £2.50 psf shift in ERV.

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.5%)	(4.8%)	(5.1%)	(3.8%)	(12.2%)	(5.2%)
-25bp	6.2%	5.3%	5.6%	4.1%	16.1%	5.9%
ERV						
+£2.50 psf	5.0%	6.0%	5.5%	18.1%	–	5.5%
-£2.50 psf	(5.0%)	(6.0%)	(5.5%)	(18.1%)	–	(5.5%)

Historic cost

	2015 £m	2014 £m
Investment property	**2,732.3**	2,534.4
Owner-occupied property	**7.7**	7.6
Trading property	**9.9**	23.4
Total property portfolio	**2,749.9**	2,565.4

17 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2015	24.8	1.5	0.9	27.2
Additions	0.1	–	0.9	1.0
Depreciation	–	–	(0.3)	(0.3)
Transfers	9.8	–	–	9.8
Revaluation	1.4	–	–	1.4
At 31 December 2015	**36.1**	**1.5**	**1.5**	**39.1**
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
Net book value				
Cost or valuation	36.1	1.5	3.5	41.1
Accumulated depreciation	–	–	(2.0)	(2.0)
At 31 December 2015	**36.1**	**1.5**	**1.5**	**39.1**
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
Company				
At 1 January 2015	–	0.9	0.7	1.6
Additions	–	–	1.0	1.0
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2015	**–**	**0.9**	**1.4**	**2.3**
At 1 January 2014	–	0.9	0.9	1.8
Additions	–	–	0.1	0.1
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2014	–	0.9	0.7	1.6
Net book value				
Cost or valuation	–	0.9	3.6	4.5
Accumulated depreciation	–	–	(2.2)	(2.2)
At 31 December 2015	**–**	**0.9**	**1.4**	**2.3**
Net book value				
Cost or valuation	–	0.9	2.6	3.5
Accumulated depreciation	–	–	(1.9)	(1.9)
At 31 December 2014	–	0.9	0.7	1.6

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 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 31 December 2015 was £1.5m (2014: £1.5m) and £0.9m (2014: £0.9m) in the Company. See note 16 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Investments

Group

The Group has a 50% interest in two joint ventures, Primister Limited and Prescot Street Limited Partnership (PSLP). 9 and 16 Prescot Street E1 was transferred from a Group company into PSLP during the year.

In April 2014 the Group disposed of its 25% interest and 50% voting rights in the joint venture, Euro Mall Sterboholy a.s.

	2015 £m	2014 £m
At 1 January	**7.4**	5.1
Distributions received	**–**	(0.1)
Transfer from investment property (see note 16)	**18.7**	–
Share of results of joint ventures (see note 9)	**4.6**	2.5
Disposal of investment in joint venture	**–**	(0.1)
At 31 December	**30.7**	7.4

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture entities.

	2015		2014	
	Joint ventures £m	Group share £m	Joint ventures £m	Group share £m
Non-current assets	**67.6**	**33.9**	21.0	10.5
Current assets	**2.6**	**1.3**	0.9	0.5
Current liabilities	**(1.3)**	**(0.6)**	–	–
Non-current liabilities	**(45.4)**	**(22.7)**	(7.2)	(3.6)
Net assets	**23.5**	**11.9**	14.7	7.4
Loans provided to joint ventures		**18.8**		–
Total investment in joint ventures		**30.7**		7.4
Income	**10.1**	**5.0**	7.3	3.3
Expenses	**(0.9)**	**(0.4)**	(1.9)	(0.8)
Profit for the year	**9.2**	**4.6**	5.4	2.5

Company

	Subsidiaries £m
At 1 January 2014	899.1
Reversal of impairment	285.5
At 31 December 2014	1,184.6
Additions	0.8
At 31 December 2015	**1,185.4**

At 31 December 2015, the carrying value of the investment in London Merchant Securities Ltd (LMS) was reviewed in accordance with IAS 36 Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement. In the opinion of the Directors, the most appropriate estimate of the fair value of LMS is the net asset value of its subsidiaries.

In 2014, principally due to the valuation movement in investment properties, there was an increase in the net asset value of the subsidiaries which resulted in an impairment reversal in the Company income statement of £285.5m.

19 Other receivables (non-current)

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Accrued income	**87.0**	73.2	**–**	–
Other	**3.7**	5.7	**–**	–
	90.7	78.9	**–**	–

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £10.0m (2014: £8.3m), which was included as current assets within trade and other receivables, these amounts totalled £97.0m at 31 December 2015 (2014: £81.5m).

20 Trade and other receivables

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Trade receivables	**2.4**	4.5	**–**	–
Amounts owed by subsidiaries	**–**	–	**1,388.0**	1,280.7
Other receivables	**5.4**	2.4	**0.1**	–
Prepayments	**14.9**	15.7	**1.4**	1.3
Other taxes	**16.5**	–	**–**	–
Accrued income	**13.5**	9.4	**0.4**	0.1
	52.7	32.0	**1,389.9**	1,282.1

	2015 £m	2014 £m
Group trade receivables are split as follows:		
less than three months due	**2.4**	4.5
	2.4	4.5

Group trade receivables includes a provision for bad debts as follows:

	2015 £m	2014 £m
At 1 January	**0.6**	0.7
Additions	**–**	0.1
Released	**(0.3)**	(0.2)
At 31 December	**0.3**	0.6
The provision for bad debts is split as follows:		
less than six months due	**0.3**	0.3
between six and 12 months due	**–**	0.2
over 12 months due	**–**	0.1
	0.3	0.6

None of the amounts included in other receivables are past due and therefore no ageing has been shown.

21 Trade and other payables

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Trade payables	**0.2**	2.2	**–**	0.5
Amounts owed to subsidiaries	**–**	–	**445.4**	331.0
Other payables	**39.9**	12.8	**0.7**	1.0
Sales and social security taxes	**–**	4.2	**2.1**	2.3
Accruals	**49.1**	37.4	**10.0**	13.1
Deferred income	**34.8**	33.2	**0.1**	0.1
	124.0	89.8	**458.3**	348.0

Included within the other payables for the Group of £39.9m is £26.4m that relates to a deferred VAT payment on the acquisition of a property in December 2015. The payment was made in January 2016.

22 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	National insurance on share-based payments £m	Total £m
Group				
At 1 January 2015	–	0.2	1.3	1.5
Provided in the income statement	–	–	0.8	0.8
Provided in reserves	–	0.9	–	0.9
Utilised in year	–	(1.1)	(0.9)	(2.0)
At 31 December 2015	**–**	**–**	**1.2**	**1.2**
Due within one year	–	–	0.7	0.7
Due after one year	–	–	0.5	0.5
	–	**–**	**1.2**	**1.2**
At 1 January 2014	0.9	0.2	1.3	2.4
Provided in the income statement	0.3	–	0.9	1.2
Provided in reserves	–	0.2	–	0.2
Utilised in year	(1.2)	(0.2)	(0.9)	(2.3)
At 31 December 2014	–	0.2	1.3	1.5
Due within one year	–	–	0.8	0.8
Due after one year	–	0.2	0.5	0.7
	–	0.2	1.3	1.5
Company				
At 1 January 2015	–	0.2	1.3	1.5
Provided in the income statement	–	–	0.8	0.8
Provided in reserves	–	0.9	–	0.9
Utilised in year	–	(1.1)	(0.9)	(2.0)
At 31 December 2015	**–**	**–**	**1.2**	**1.2**
Due within one year	–	–	0.7	0.7
Due after one year	–	–	0.5	0.5
	–	**–**	**1.2**	**1.2**
At 1 January 2014	–	0.2	1.2	1.4
Provided in the income statement	–	–	0.8	0.8
Provided in reserves	–	0.2	–	0.2
Utilised in year	–	(0.2)	(0.7)	(0.9)
At 31 December 2014	–	0.2	1.3	1.5
Due within one year	–	–	0.8	0.8
Due after one year	–	0.2	0.5	0.7
	–	0.2	1.3	1.5

Provisions are made for those parts of the executive Directors' bonuses which are to be deferred in shares (see report of the Remuneration Committee). National insurance is payable on gains made by employees on the exercise of share-based payments granted to them. The eventual liability to national insurance is dependent on:

- The market price of the Company's shares at the date of exercise.
- The number of equity instruments that are exercised.
- The prevailing rate of national insurance at the date of exercise.

23 Borrowings and derivative financial instruments

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Current liabilities				
2.75% unsecured convertible bonds 2016	**–**	170.5	**–**	–
Intercompany loan	**–**	–	**–**	170.5
	–	170.5	**–**	170.5
Non-current liabilities				
1.125% unsecured convertible bonds 2019	**140.2**	137.5	**–**	–
6.5% secured bonds 2026	**188.9**	189.8	**–**	–
4.41% unsecured private placement notes 2029	**24.8**	24.7	**24.8**	24.7
4.68% unsecured private placement notes 2034	**74.3**	74.2	**74.3**	74.2
3.99% secured loan 2024	**82.0**	81.9	**82.0**	81.9
Unsecured bank loans	**356.8**	243.7	**356.8**	243.7
Secured bank loans	**28.0**	97.5	**–**	69.5
Intercompany loan	**–**	–	**140.2**	137.5
	895.0	849.3	**678.1**	631.5
Gross debt	**895.0**	1,019.8	**678.1**	802.0
Leasehold liabilities	**23.2**	8.3	**–**	–
Borrowings	**918.2**	1,028.1	**678.1**	802.0
Derivative financial instruments expiring in greater than one year	**17.6**	25.2	**15.6**	22.7
Borrowings and derivative financial instruments	**935.8**	1,053.3	**693.7**	824.7
Reconciliation of borrowings to net debt:				
Borrowings	**918.2**	1,028.1	**678.1**	802.0
Cash and cash equivalents	**(6.5)**	(14.8)	**(5.6)**	(14.2)
Net debt	**911.7**	1,013.3	**672.5**	787.8

2.75% unsecured convertible bonds 2016

In June 2011 the Group issued its first convertible bonds which paid a coupon of 2.75% and had a conversion price of £22.22 per share. In December 2014, the Group issued a notice for the early redemption of these bonds. All the bondholders opted to convert in January 2015 with the result that 7,875,776 new ordinary shares of 5p each were issued at the conversion price of £22.22 per share, and the bonds were subsequently cancelled. Of the proceeds of £175.0m received from the bondholders, £0.5m was credited to share capital and £174.5m was credited to retained earnings. The £9.4m that had been credited to other reserves on issue was transferred to retained earnings on conversion of the bonds. In addition, unamortised amounts totalling £4.3m due to early redemption have been charged to retained earnings. After £0.1m of transaction costs, the total taken to retained earnings on conversion was, therefore, £179.5m. At 31 December 2014, the carrying value was £170.5m and the fair value was determined by the ask-price of £135.71 per £100.

1.125% unsecured convertible bonds 2019

In July 2013 the Group issued its second convertible bond. The unsecured instrument pays a coupon of 1.125% until July 2019 or its conversion date, if earlier. The initial conversion price was set at £33.35 per share. In accordance with IAS 32, the equity and debt components of the bond are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.67%. As a result, £137.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £12.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £3.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bond. The issue costs apportioned to equity of £0.3m have not been amortised. The fair value was determined by the ask-price of £119.62 per £100 as at 31 December 2015 (2014: £109.49 per £100). The carrying value at 31 December 2015 was £140.2m (2014: £137.5m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	150.0
Fair value adjustment on issue allocated to equity	(12.6)
Debt component on issue	137.4
Unamortised issue costs	(2.1)
Amortisation of fair value adjustment	4.9
Carrying amount included in borrowings	140.2

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2015 was determined by the ask-price of £124.10 per £100 (2014: £129.94 per £100). The carrying value at 31 December 2015 was £188.9m (2014: £189.8m).

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins. The references were a 6% 2028 gilt and a 4.25% 2032 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2015 were £24.8m (2014: £24.7m) and £74.3m (2014: £74.2m), respectively.

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilt plus an implied margin. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2015 was £82.0m (2014: £81.9m).

Bank borrowings

In December 2014, an agreement was signed to amend and extend the £550m facility arranged in September 2013 with a reduced margin and a revised maturity. In 2015, the maturity of this facility was extended by one year to 2021.

In July 2015, we also completed a new fully revolving £75m minimum five-year unsecured loan facility. An existing £90m secured bank facility from the same lender was cancelled at the same time. As all main corporate facilities have been refinanced or amended in 2014 and 2015, the fair values of the Group's bank loans are therefore deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2015	**–**	**–**	**–**	**–**	**28.5**	**234.0**	**262.5**
At 31 December 2014	–	–	20.0	–	–	301.0	321.0
Company							
At 31 December 2015	**–**	**–**	**–**	**–**	**28.5**	**234.0**	**262.5**
At 31 December 2014	–	–	20.0	–	–	301.0	321.0

Intercompany loans

The terms of the intercompany loans in the Company mirror those of the unsecured convertible bonds 2016 and 2019. As with the bonds, debt and equity components of the intercompany loans have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value at 31 December 2015 was £140.2m (2014: £308.0m).

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2015 for the period to the contracted expiry dates.

The Group also has a £70m forward starting interest rate swap effective from 29 March 2016. This swap is not included in the 31 December 2015 figures in the table below, but the financial impact from the effective date onwards is included in the relevant tables in this note.

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

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2015						
Interest rate swaps	253.0	2.44	4.6	225.0	2.30	4.8
At 31 December 2014						
Interest rate swaps	283.0	2.84	4.0	255.0	2.77	3.9

23 Borrowings and derivative financial instruments (continued)

Secured and unsecured debt

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Secured				
6.5% secured bonds 2026	**188.9**	189.8	**–**	–
3.99% secured loan 2024	**82.0**	81.9	**82.0**	81.9
Secured bank loans	**28.0**	97.5	**–**	69.5
	298.9	369.2	**82.0**	151.4
Unsecured				
2.75% unsecured convertible bonds 2016	**–**	170.5	**–**	–
1.125% unsecured convertible bonds 2019	**140.2**	137.5	**–**	–
4.41% unsecured private placement notes 2029	**24.8**	24.7	**24.8**	24.7
4.68% unsecured private placement notes 2034	**74.3**	74.2	**74.3**	74.2
Unsecured bank loan	**356.8**	243.7	**356.8**	243.7
Intercompany loans	**–**	–	**140.2**	308.0
	596.1	650.6	**596.1**	650.6
Gross debt	**895.0**	1,019.8	**678.1**	802.0

At 31 December 2015, the Group's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £144.8m (2014: £129.1m) and £255.5m (2014: £225.2m), respectively, of the Group's properties. The Group's other secured bank loan, which was cancelled in the year, was secured by a fixed charge over £346.6m of the Group's properties at 31 December 2014. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contain £845.1m (2014: £749.2m) of the Group's properties.

At 31 December 2015, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £255.5m (2014: £225.2m) of the Group's properties. Additionally, at 31 December 2014, the Company had a secured bank loan secured by a fixed charge over £346.6m of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2015 and 2014, the Group's fixed rate and hedged debt included the unsecured convertible bonds 2019, the secured bonds 2026, a secured loan 2024, the unsecured private placement notes 2029 and 2034 and the hedged bank debt. Additionally, at 31 December 2014, it also comprised unsecured convertible bonds 2016. At 31 December 2015 and 2014, the Company's fixed rate debt comprised a secured loan 2024, the unsecured private placement notes 2029 and 2034, the hedged bank debt and the intercompany loans.

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's gross debt was:

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average interest rate[1] %	Weighted average life Years
Group						
At 31 December 2015						
1.125% unsecured convertible bonds 2019	–	–	140.2	140.2	2.67	3.6
6.5% secured bonds 2026	–	–	188.9	188.9	6.50	10.2
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	13.0
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	18.0
3.99% secured loan 2024	–	–	82.0	82.0	3.99	8.8
Unsecured bank loan	135.3	221.5	–	356.8	2.99	5.0
Secured bank loans	–	28.0	–	28.0	4.30	2.5
	135.3	**249.5**	**510.2**	**895.0**	**3.93**	**7.3**
At 31 December 2014						
2.75% unsecured convertible bonds 2016	–	–	170.5	170.5	3.99	0.1
1.125% unsecured convertible bonds 2019	–	–	137.5	137.5	2.67	4.6
6.5% secured bonds 2026	–	–	189.8	189.8	6.50	11.2
4.41% unsecured private placement notes 2029	–	–	24.7	24.7	4.41	14.0
4.68% unsecured private placement notes 2034	–	–	74.2	74.2	4.68	19.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	9.8
Unsecured bank loan	62.6	181.1	–	243.7	3.47	5.0
Secured bank loans	–	97.5	–	97.5	4.61	3.1
	62.6	278.6	678.6	1,019.8	4.22	6.6
Company						
At 31 December 2015						
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	13.0
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	18.0
3.99% secured loan 2024	–	–	82.0	82.0	3.99	8.8
Unsecured bank loan	135.3	221.5	–	356.8	2.99	5.0
Intercompany loans	–	–	140.2	140.2	2.67	3.6
	135.3	**221.5**	**321.3**	**678.1**	**3.27**	**6.8**
At 31 December 2014						
4.41% unsecured private placement notes 2029	–	–	24.7	24.7	4.41	14.0
4.68% unsecured private placement notes 2034	–	–	74.2	74.2	4.68	19.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	9.8
Unsecured bank loan	62.6	181.1	–	243.7	3.47	5.0
Secured bank loans	–	69.5	–	69.5	4.73	3.0
Intercompany loans	–	–	308.0	308.0	3.38	2.2
	62.6	250.6	488.8	802.0	3.73	5.7

[1] The weighted average interest rates are based on the nominal amounts of the debt facilities.

23 Borrowings and derivative financial instruments (continued)

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2015							
1.125% unsecured convertible bonds 2019	–	–	–	150.0	–	–	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	46.5	316.0	362.5
Secured bank loans	–	–	28.0	–	–	–	28.0
Total on maturity	–	–	28.0	150.0	46.5	674.0	898.5
Leasehold liabilities	1.1	1.2	1.2	1.2	1.2	144.8	150.7
Interest on gross debt	29.8	31.7	32.6	32.9	31.2	132.9	291.1
Effect of interest rate swaps	5.6	4.6	3.5	2.5	0.8	0.2	17.2
Gross loan commitments	**36.5**	**37.5**	**65.3**	**186.6**	**79.7**	**951.9**	**1,357.5**
At 31 December 2014							
2.75% unsecured convertible bonds 2016	175.0	–	–	–	–	–	175.0
1.125% unsecured convertible bonds 2019	–	–	–	–	150.0	–	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	–	249.0	249.0
Secured bank loans	–	–	70.0	28.0	–	–	98.0
Total on maturity	175.0	–	70.0	28.0	150.0	607.0	1,030.0
Leasehold liabilities	0.5	0.5	0.5	0.5	0.5	61.5	64.0
Interest on gross debt	30.9	30.1	31.3	29.3	29.3	152.1	303.0
Effect of interest rate swaps	7.6	6.6	5.3	3.2	2.4	0.7	25.8
Gross loan commitments	214.0	37.2	107.1	61.0	182.2	821.3	1,422.8

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
At 31 December 2015						
Maturing in:						
< 1 year	36.5	(29.8)	(5.6)	(1.1)	–	–
1 to 2 years	37.5	(31.7)	(4.6)	(1.2)	–	–
2 to 3 years	65.3	(32.6)	(3.5)	(1.2)	–	28.0
3 to 4 years	186.6	(32.9)	(2.5)	(1.2)	(9.8)	140.2
4 to 5 years	79.7	(31.2)	(0.8)	(1.2)	(0.6)	45.9
> 5 years	951.9	(132.9)	(0.2)	(121.6)	6.9	704.1
	1,357.5	**(291.1)**	**(17.2)**	**(127.5)**	**(3.5)**	**918.2**
At 31 December 2014						
Maturing in:						
< 1 year	214.0	(30.9)	(7.6)	(0.5)	(4.5)	170.5
1 to 2 years	37.2	(30.1)	(6.6)	(0.5)	–	–
2 to 3 years	107.1	(31.3)	(5.3)	(0.5)	(0.4)	69.6
3 to 4 years	61.0	(29.3)	(3.2)	(0.5)	–	28.0
4 to 5 years	182.2	(29.3)	(2.4)	(0.5)	(12.5)	137.5
> 5 years	821.3	(152.1)	(0.7)	(53.2)	7.2	622.5
	1,422.8	(303.0)	(25.8)	(55.7)	(10.2)	1,028.1

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2015							
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	46.5	316.0	362.5
Intercompany loans	–	–	–	150.0	–	–	150.0
Total on maturity	–	–	–	150.0	46.5	499.0	695.5
Interest on debt	17.9	19.7	20.8	21.6	19.8	70.4	170.2
Effect of interest rate swaps	4.8	4.0	3.0	2.4	0.8	0.2	15.2
Gross loan commitments	**22.7**	**23.7**	**23.8**	**174.0**	**67.1**	**569.6**	**880.9**
At 31 December 2014							
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loan	–	–	–	–	–	249.0	249.0
Secured bank loan	–	–	70.0	–	–	–	70.0
Intercompany loans	175.0	–	–	–	150.0	–	325.0
Total on maturity	175.0	–	70.0	–	150.0	432.0	827.0
Interest on debt	19.1	18.1	19.3	17.6	18.0	78.1	170.2
Effect of interest rate swaps	6.9	5.9	4.7	2.7	2.3	0.7	23.2
Gross loan commitments	201.0	24.0	94.0	20.3	170.3	510.8	1,020.4

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Company						
At 31 December 2015						
Maturing in:						
< 1 year	22.7	(17.9)	(4.8)	–	–	–
1 to 2 years	23.7	(19.7)	(4.0)	–	–	–
2 to 3 years	23.8	(20.8)	(3.0)	–	–	–
3 to 4 years	174.0	(21.6)	(2.4)	–	(9.8)	140.2
4 to 5 years	67.1	(19.8)	(0.8)	–	(0.6)	45.9
> 5 years	569.6	(70.4)	(0.2)	–	(7.0)	492.0
	880.9	**(170.2)**	**(15.2)**	**–**	**(17.4)**	**678.1**
At 31 December 2014						
Maturing in:						
< 1 year	201.0	(19.1)	(6.9)	–	(4.5)	170.5
1 to 2 years	24.0	(18.1)	(5.9)	–	–	–
2 to 3 years	94.0	(19.3)	(4.7)	–	(0.4)	69.6
3 to 4 years	20.3	(17.6)	(2.7)	–	–	–
4 to 5 years	170.3	(18.0)	(2.3)	–	(12.5)	137.5
> 5 years	510.8	(78.1)	(0.7)	–	(7.6)	424.4
	1,020.4	(170.2)	(23.2)	–	(25.0)	802.0

23 Borrowings and derivative financial instruments (continued)

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2015 Receivable £m	2015 Payable £m	2014 Receivable £m	2014 Payable £m
Group				
Maturing in:				
< 1 year	**2.7**	**(8.3)**	2.6	(10.2)
1 to 2 years	**4.4**	**(9.0)**	4.2	(10.8)
2 to 3 years	**5.5**	**(9.0)**	5.3	(10.6)
3 to 4 years	**5.0**	**(7.5)**	4.2	(7.4)
4 to 5 years	**2.7**	**(3.5)**	3.6	(6.0)
> 5 years	**2.9**	**(3.1)**	1.1	(1.8)
Gross contractual cash flows	**23.2**	**(40.4)**	21.0	(46.8)
Company				
Maturing in:				
< 1 year	**2.5**	**(7.3)**	2.3	(9.2)
1 to 2 years	**4.0**	**(8.0)**	3.9	(9.8)
2 to 3 years	**5.0**	**(8.0)**	4.9	(9.6)
3 to 4 years	**4.9**	**(7.3)**	3.7	(6.4)
4 to 5 years	**2.7**	**(3.5)**	3.4	(5.7)
> 5 years	**2.9**	**(3.1)**	1.1	(1.8)
Gross contractual cash flows	**22.0**	**(37.2)**	19.3	(42.5)

Financial instruments – risk management

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

- Credit risk.
- Market risk.
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 72 to 77 and page 90.

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 quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 20.

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

Market risk

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

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.7m (2014: £0.3m) or a decrease of £0.7m (2014: £0.3m).

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 2015, the proportion of fixed debt held by the Group was at the top of this range at 85% (2014: 94%). During both 2015 and 2014, 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 2015, the Group's strategy, which was unchanged from 2014, 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 these Report and Accounts and are derived in note 39.

24 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	6.5	–	6.5
Other assets – current[1]	–	21.3	–	21.3
	–	27.8	–	27.8
Financial liabilities				
1.125% unsecured convertible bonds 2019	–	–	(140.2)	(140.2)
6.5% secured bonds 2026	–	–	(188.9)	(188.9)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(82.0)	(82.0)
Bank borrowings due after one year	–	–	(384.8)	(384.8)
Leasehold liabilities	–	–	(23.2)	(23.2)
Derivative financial instruments	(17.6)	–	–	(17.6)
Other liabilities – current[2]	–	–	(89.2)	(89.2)
	(17.6)	–	(1,007.4)	(1,025.0)
At 31 December 2015	**(17.6)**	**27.8**	**(1,007.4)**	**(997.2)**
Financial assets				
Cash and cash equivalents	–	14.8	–	14.8
Other assets – current[1]	–	16.3	–	16.3
	–	31.1	–	31.1
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(170.5)	(170.5)
1.125% unsecured convertible bonds 2019	–	–	(137.5)	(137.5)
6.5% secured bonds 2026	–	–	(189.8)	(189.8)
4.41% unsecured private placement notes 2029	–	–	(24.7)	(24.7)
4.68% unsecured private placement notes 2034	–	–	(74.2)	(74.2)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(341.2)	(341.2)
Leasehold liabilities	–	–	(8.3)	(8.3)
Derivative financial instruments	(25.2)	–	–	(25.2)
Other liabilities – current[2]	–	–	(52.4)	(52.4)
	(25.2)	–	(1,080.5)	(1,105.7)
At 31 December 2014	(25.2)	31.1	(1,080.5)	(1,074.6)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	5.6	–	5.6
Other assets – current[1]	–	1,388.5	–	1,388.5
	–	1,394.1	–	1,394.1
Financial liabilities				
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(82.0)	(82.0)
Bank borrowings due after one year	–	–	(356.8)	(356.8)
Intercompany loans	–	–	(140.2)	(140.2)
Derivative financial instruments	(15.6)	–	–	(15.6)
Other liabilities – current[2]	–	(445.4)	(10.7)	(456.1)
	(15.6)	(445.4)	(688.8)	(1,149.8)
At 31 December 2015	**(15.6)**	**948.7**	**(688.8)**	**244.3**
Financial assets				
Cash and cash equivalents	–	14.2	–	14.2
Other assets – current[1]	–	1,280.8	–	1,280.8
	–	1,295.0	–	1,295.0
Financial liabilities				
4.41% unsecured private placement notes 2029	–	–	(24.7)	(24.7)
4.68% unsecured private placement notes 2034	–	–	(74.2)	(74.2)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(313.2)	(313.2)
Intercompany loans	–	–	(308.0)	(308.0)
Derivative financial instruments	(22.7)	–	–	(22.7)
Other liabilities – current[2]	–	(331.0)	(14.6)	(345.6)
	(22.7)	(331.0)	(816.6)	(1,170.3)
At 31 December 2014	(22.7)	964.0	(816.6)	124.7

[1] In 2015, other assets includes all amounts shown as trade and other receivables in note 20 except prepayments and sales and social security taxes of £31.4m (2014: £15.7m) for the Group and £1.4m (2014: £1.3m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] In 2015, other liabilities for the Group include all amounts shown as trade and other payables in note 21 except deferred income and sales and social security taxes of £34.8m (2014: £37.4m) for the Group and of £2.2m (2014: £2.4m) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to borrowings and derivative financial instruments:

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Net financial assets and liabilities	**(997.2)**	(1,074.6)	**244.3**	124.7
Other assets – current	**(21.3)**	(16.3)	**(1,388.5)**	(1,280.8)
Other liabilities – current	**89.2**	52.4	**456.1**	345.6
Cash and cash equivalents	**(6.5)**	(14.8)	**(5.6)**	(14.2)
Borrowings and derivative financial instruments	**(935.8)**	(1,053.3)	**(693.7)**	(824.7)

24 Financial assets and liabilities and fair values (continued)

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 23.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2015					
1.125% unsecured convertible bonds 2019	(140.2)	(171.7)	–	–	Level 1
6.5% secured bonds 2026	(188.9)	(217.2)	–	–	Level 1
4.41% unsecured private placement notes 2029	(24.8)	(27.2)	(24.8)	(27.2)	Level 2
4.68% unsecured private placement notes 2034	(74.3)	(81.9)	(74.3)	(81.9)	Level 2
3.99% secured loan 2024	(82.0)	(83.3)	(82.0)	(83.3)	Level 2
Bank borrowings due after one year	(384.8)	(390.5)	(356.8)	(362.5)	Level 2
Intercompany loans	–	–	(140.2)	(171.7)	Level 2
Derivative financial instruments	(17.6)	(17.6)	(15.6)	(15.6)	Level 2
	(912.6)	(989.4)	(693.7)	(742.2)	
Amounts not fair valued:					
Cash and cash equivalents	6.5		5.6		
Other assets – current	21.3		1,388.5		
Leasehold liabilities	(23.2)		–		
Other liabilities – current	(89.2)		(456.1)		
Net financial assets and liabilities	**(997.2)**		**244.3**		
At 31 December 2014					
2.75% unsecured convertible bonds 2016	(170.5)	(234.4)	–	–	Level 1
1.125% unsecured convertible bonds 2019	(137.5)	(154.5)	–	–	Level 1
6.5% secured bonds 2026	(189.8)	(227.4)	–	–	Level 1
4.41% unsecured private placement notes 2029	(24.7)	(27.6)	(24.7)	(27.6)	Level 2
4.68% unsecured private placement notes 2034	(74.2)	(83.5)	(74.2)	(83.5)	Level 2
3.99% secured loan 2024	(81.9)	(84.1)	(81.9)	(84.1)	Level 2
Bank borrowings due after one year	(341.2)	(347.0)	(313.2)	(318.5)	Level 2
Intercompany loans	–	–	(308.0)	(388.9)	Level 2
Derivative financial instruments	(25.2)	(25.2)	(22.7)	(22.7)	Level 2
	(1,045.0)	(1,183.7)	(824.7)	(925.3)	
Amounts not fair valued:					
Cash and cash equivalents	14.8		14.2		
Other assets – current	16.3		1,280.8		
Leasehold liabilities	(8.3)		–		
Other liabilities – current	(52.4)		(345.6)		
Net financial assets and liabilities	(1,074.6)		124.7		

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2015 or 2014.

25 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2015	7.2	(2.2)	5.0
Charged/(credited) to the income statement	1.4	(1.0)	0.4
Charged to other comprehensive income	0.1	–	0.1
At 31 December 2015	**8.7**	**(3.2)**	**5.5**
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
Company			
At 1 January 2015	–	(2.2)	(2.2)
Credited to the income statement	–	(1.0)	(1.0)
At 31 December 2015	**–**	**(3.2)**	**(3.2)**
At 1 January 2014	–	(4.3)	(4.3)
Charged to the income statement	–	2.0	2.0
Change in tax rates in the income statement	–	0.1	0.1
At 31 December 2014	–	(2.2)	(2.2)

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.

26 Equity

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2014	102,477,582
Issued as a result of scrip dividends	74,482
Issued as a result of awards vesting under the Group's Performance Share Plan	135,159
Issued as a result of the exercise of share options[1]	97,745
At 31 December 2014	102,784,968
Issued as a result of scrip dividends	316,314
Issued as a result of awards vesting under the Group's Performance Share Plan	121,773
Issued as a result of the exercise of share options[1]	73,270
Issued as a result of the conversion of the convertible bonds	7,875,776
At 31 December 2015	**111,172,101**

[1] Proceeds from these issues were £1.2m (2014: £1.5m).

The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 96 to 112 and note 13.

27 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends and share-based payments.

Other reserves

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Merger reserve	**910.5**	910.5	**910.5**	910.5
Revaluation reserve	**23.8**	15.6	**–**	–
Equity portion of the convertible bonds	**12.3**	21.7	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**12.3**	21.7
Fair value of equity instruments under share-based payments	**6.3**	4.7	**6.3**	4.7
	952.9	952.5	**929.1**	936.9

28 Profit for the year attributable to members of Derwent London plc

Profit for the year in the Group income statement includes a loss of £20.0m (2014: profit of £251.6m) generated by the Company. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

29 Dividends

	Payment date	Dividend per share PID p	Non-PID p	Total p	2015 £m	2014 £m
Current year						
2015 final dividend	10 June 2016	30.80	–	30.80	**–**	–
2015 interim dividend	22 October 2015	12.60	–	12.60	**14.0**	–
Distribution of current year profit		43.40	–	43.40	**14.0**	–
Prior year						
2014 final dividend	12 June 2015	22.35	5.65	28.00	**31.0**	–
2014 interim dividend	23 October 2014	7.30	4.35	11.65	**–**	12.0
Distribution of prior year profit		29.65	10.00	39.65	**31.0**	12.0
2013 final dividend	13 June 2014	23.50	2.25	25.75	**–**	26.4
Dividends as reported in the Group statement of changes in equity					**45.0**	38.4
2015 interim dividend withholding tax	14 January 2016				**(1.7)**	–
2015 interim scrip dividend	22 October 2015				**(3.3)**	–
2014 final scrip dividend	12 June 2015				**(7.7)**	–
2014 interim dividend withholding tax	14 January 2015				**1.0**	(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
Dividends paid as reported in the Group cash flow statement					**33.3**	36.2

30 Cash and cash equivalents

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Cash at bank	**6.5**	14.8	**5.6**	14.2

31 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2015 and not provided for in the accounts amounted to £220.1m (2014: £136.2m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties. At 31 December 2015 and 31 December 2014, there were no obligations for the purchase, repair or maintenance of investment properties.

32 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2015 and 31 December 2014, there was no liability that could arise for the Company from the cross guarantees.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

33 Leases

	2015 £m	2014 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**149.1**	138.8
later than one year and not later than five years	**496.3**	455.0
later than five years	**699.5**	630.9
	1,344.9	1,224.7

	2015 £m	2014 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**1.1**	0.5
later than one year and not later than five years	**4.8**	2.0
later than five years	**144.8**	61.5
	150.7	64.0
Future contingent rent payable on finance leases	**(16.7)**	(16.6)
Future finance charges on finance leases	**(110.8)**	(39.1)
Present value of finance lease liabilities	**23.2**	8.3
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**0.1**	0.1
later than five years	**23.1**	8.2
	23.2	8.3

In accordance with IAS 17 Leases, the minimum lease payments are allocated as follows:

	2015 £m	2014 £m
Finance charge	**1.1**	0.5
Contingent rent	**0.4**	0.4
Total	**1.5**	0.9

The Group has approximately 725 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 15 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases granted during 2015 was 11.1 years (2014: 9.4 years). Of these leases, on a weighted average basis, 97% (2014: 91%) included a rent free or half rent period.

34 Post balance sheet events

In February 2016, the Group agreed to issue £30m of new 3.46% senior notes expiring in May 2028 and £75m of new 3.57% senior notes expiring in May 2031. The £105m of funds will be drawn in May 2016.

35 List of subsidiaries and joint ventures

A full list of subsidiaries and joint ventures as at 31 December 2015 is set out below:

	Ownership[2]	Principal activity
Subsidiaries		
Asta Commercial Limited	100%	Property investment
Bargate Quarter Limited	65%	Investment Company
BBR (Commercial) Limited	100%	Property investment
BBR Property Limited[1]	100%	Property trading
Caledonian Properties Limited	100%	Property investment
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Carlton Construction & Development Company Limited	100%	Dormant
Central London Commercial Estates Limited	100%	Property investment
Charlotte Apartments Limited	100%	Property investment
Corinium Estates Limited	100%	Property trading
City Shops Limited	100%	Property trading
Derwent Asset Management Limited[1]	100%	Property management
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Angel Square Limited[1]	100%	Property investment
Derwent London Asta Limited	100%	Property trading
Derwent London Charlotte Street (Commercial) Limited	100%	Property investment
Derwent London Charlotte Street Limited[1]	100%	Property trading
Derwent London Copyright House Limited[1]	100%	Property investment
Derwent London Development Services Limited[1]	100%	Management services
Derwent London Farringdon Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London KSW Limited[1]	100%	Property investment
Derwent London Page Street (Nominees) Limited	100%	Dormant
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley City Limited	100%	Property investment
Derwent Valley Employee Trust Limited[1]	100%	Dormant
Derwent Valley Finance Limited	100%	Finance company
Derwent Valley Limited	100%	Holding company
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Properties Limited	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Derwent Valley Property Trading Limited	100%	Property trading
Derwent Valley Railway Company[1]	100%	Dormant
Derwent Valley West End Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
22 Kingsway Limited[1]	100%	Dormant
LMS Properties Limited	100%	Property investment
LMS Services Limited	100%	Management services
LMS Shops Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS (Goodge Street) Limited	100%	Property investment
LMS Finance Limited	100%	Investment Holding
LMS Industrial Finance Limited	100%	Finance company
LMS Leisure Investments Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
LMS Outlets Limited	100%	Property investment
LMS Residential Limited	100%	Property trading
London Merchant Securities Limited[1]	100%	Holding company
LS Kingsway Limited	100%	Dormant
Merchant Nominees Limited	100%	Dormant
Merchant Overseas Holdings Limited	100%	Dormant
Palaville Limited	100%	Property investment
Rainram Investments Limited	100%	Property investment
Shaftesbury Square Properties Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Urbanfirst Limited	100%	Investment Holding
Derwent London Capital No. 2 (Jersey) Limited[1]	100%	Finance company
Portman Investments (Baker Street) Limited	55%	Property investment

	Ownership[2]	Principal activity
Joint ventures		
Dorrington Derwent Holdings Limited	50%	Holding company
Dorrington Derwent Investment Limited	50%	Investment company
Prescot Street GP Limited	50%	Management Company
Prescot Street Leaseco Limited	50%	Property investment
Prescot Street Limited Partnership	50%	Property investment
Prescot Street Nominees Limited	50%	Dormant
Primister Limited	50%	Property investment

[1] Indicates subsidiary undertakings held directly.
[2] All holdings are of ordinary shares.

The Company controls 50% of the voting rights of its joint ventures, which are accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

The Company's interest in Portman Investments (Baker Street) Limited is accounted for and disclosed in accordance with IAS 27 Consolidated and Separate Financial Statements. This gives rise to a non-controlling interest within equity in the Group balance sheet and the separate disclosure of the non-controlling interest's share of the Group's profit for the year in the Group income statement and Group statement of comprehensive income.

All of the above companies are registered and operate in England and Wales except for Derwent London Capital No. 2 (Jersey) Limited and 22 Kingsway Limited which are registered in Jersey.

36 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 96 to 112 and note 11. A full list of subsidiaries and joint ventures is given in note 35. Other related party transactions are as follows:

Group

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which occupies offices owned by the Group for which they paid a commercial rent of £0.3m (2014: £0.3m). The Group also contributed £0.1m (2014: £0.1m) to LMS Capital plc's running costs.

During the year, the Group paid fees, at a commercial rate, of £15,000 (2014: £12,500) in respect of interior design services to Mrs R. Silver, the wife of Mr S.P. Silver.

There are no outstanding balances owed to the Group with respect to all of the above transactions.

At 31 December 2015, included within other receivables in note 20 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £2.0m (2014: £2.0m).

36 Related party disclosure (continued)

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest income/(expense)		Balance receivable/(payable)	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Related party				
22 Kingsway Limited	**–**	–	**(33.5)**	(33.5)
BBR (Commercial) Limited	**–**	–	**0.9**	0.9
BBR Property Limited	**0.2**	0.8	**(3.0)**	8.1
Derwent Asset Management Limited	**–**	–	**(0.3)**	(0.1)
Derwent Central Cross Limited	**8.9**	8.6	**202.5**	189.5
Derwent Henry Wood Limited	**2.2**	2.3	**48.1**	48.9
Derwent London Angel Square Limited	**3.5**	0.3	**80.5**	77.4
Derwent London Capital (Jersey) Limited[1]	**–**	(6.7)	**–**	(170.4)
Derwent London Capital No. 2 (Jersey) Limited[2]	**(3.7)**	(3.7)	**(140.1)**	(137.4)
Derwent London Charlotte Street (Commercial) Limited	**–**	–	**1.1**	0.2
Derwent London Charlotte Street Limited	**0.6**	0.5	**7.6**	12.7
Derwent London Copyright House Limited	**1.0**	–	**53.6**	–
Derwent London Farringdon Limited	**4.2**	–	**95.5**	–
Derwent London Grafton Limited	**1.6**	1.7	**34.6**	35.0
Derwent London Howland Limited	**5.6**	6.0	**126.1**	127.5
Derwent London KSW Limited	**2.9**	2.7	**89.1**	57.8
Derwent London Page Street Limited	**0.9**	1.0	**19.1**	20.6
Derwent Valley Central Limited	**(7.4)**	(4.4)	**(6.3)**	23.4
Derwent Valley London Limited	**5.3**	5.8	**115.0**	145.2
Derwent Valley Property Developments Limited	**3.2**	9.9	**58.7**	93.9
Derwent Valley Property Investments Limited	**(4.0)**	(4.1)	**(61.3)**	(57.4)
Derwent Valley Railway Company[3]	**–**	–	**(0.2)**	(0.2)
Derwent Valley West End Limited	**0.1**	0.1	**2.4**	2.4
London Merchant Securities Limited[4]	**5.5**	9.6	**112.3**	197.2
	30.6	30.4	**802.4**	641.7

[1] The payable balance at 31 December 2014 includes the intercompany loan of £170.5m included in note 23.
[2] The payable balance at 31 December 2015 includes the intercompany loan of £140.2m (2014: £137.5m) included in note 23.
[3] Dormant company.
[4] Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the loan from Derwent London Capital No. 2 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

37 EPRA performance measures

Summary table

	2015		2014	
		Pence per share p		Pence per share p
EPRA earnings	**£78.7m**	**71.34**	£58.6m	57.08
EPRA net asset value	**£4,101.7m**	**3,535**	£3,232.0m	2,908
EPRA triple net asset value	**£4,018.8m**	**3,463**	£3,112.1m	2,800
EPRA vacancy rate	**1.3%**		4.1%	
EPRA cost ratio (including direct vacancy costs)	**24.3%**		24.2%	
EPRA net initial yield	**3.1%**		3.4%	
EPRA 'topped-up' net initial yield	**3.8%**		4.0%	

The definition of these measures can be found on page 176.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2015 '000	2014 '000	**2015 '000**	2014 '000
For use in basic measures	**110,320**	102,658	**111,172**	102,785
Dilutive effect of convertible bonds	**4,498**	12,373	**4,498**	7,876
Dilutive effect of share-based payments	**355**	456	**363**	477
For use in measures for which bond conversion is dilutive	**115,173**	115,487	**116,033**	111,138
Less dilutive effect of convertible bonds	**(4,498)**	(12,373)	**(4,498)**	(7,876)
For use in other diluted measures	**110,675**	103,114	**111,535**	103,262

The £150m unsecured convertible bonds 2019 (2019 bonds) have an initial conversion price set at £33.35. The £175m unsecured convertible bonds 2016 (2016 bonds) were redeemed early and converted into ordinary shares in January 2015 at a conversion price of £22.22.

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 2015, the shares attributable to the conversion of the 2019 bonds were dilutive for the net asset value (NAV) and EPRA NAV per share and unadjusted earnings per share but anti-dilutive for EPRA earnings per share.

For 2014, the shares attributable to the conversion of the 2019 bonds were dilutive for unadjusted earnings per share but anti-dilutive for all other measures. The shares attributable to the 2016 bonds were dilutive for NAV and EPRA NAV per share and unadjusted earnings per share but anti-dilutive for EPRA earnings per share.

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 and trading property and investment in joint venture, and associated tax and non-controlling interest.

B – Revaluation surplus 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

		Adjustments:				
	IFRS £m	A £m	B £m	C £m	D £m	EPRA £m
Year ended 31 December 2015						
Net property and other income	148.6	(3.2)	–	–	–	145.4
Total administrative expenses	(30.0)	–	–	–	–	(30.0)
Revaluation surplus	650.0	–	(650.0)	–	–	–
Profit on disposal of investment property	40.2	(40.2)	–	–	–	–
Net finance costs	(35.1)	–	–	–	0.3	(34.8)
Movement in fair value of derivative financial instruments	7.6	–	–	(7.6)	–	–
Financial derivative termination costs	(6.4)	–	–	6.4	–	–
Share of results of joint ventures	4.6	–	(3.6)	–	–	1.0
Profit before tax	**779.5**	**(43.4)**	**(653.6)**	**(1.2)**	**0.3**	**81.6**
Tax charge	(2.3)	–	1.4	–	–	(0.9)
Profit for the year	777.2	(43.4)	(652.2)	(1.2)	0.3	80.7
Non-controlling interest	(11.0)	0.4	8.4	0.2	–	(2.0)
Profit for the year attributable to equity shareholders	766.2	(43.0)	(643.8)	(1.0)	0.3	78.7
Interest effect of dilutive convertible bonds	4.0	–	–	–	(4.0)	–
Diluted earnings	**770.2**	**(43.0)**	**(643.8)**	**(1.0)**	**(3.7)**	**78.7**
Earnings per share	**694.53p**					**71.34p**
Diluted earnings per share	668.73p					71.11p
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

37 EPRA performance measures (continued)

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2015			
Net assets attributable to equity shareholders – diluted	4,062.7		3,501
Remove conversion of 1.125% unsecured convertible bonds 2019	(140.2)		
Net assets attributable to equity shareholders – undiluted	3,922.5	3,528	
Adjustment for:			
Revaluation of trading properties net of tax	1.4		
Deferred tax on revaluation surplus	8.7		
Fair value of derivative financial instruments	17.6		
Fair value adjustment to secured bonds	15.0		
Non-controlling interest in respect of the above	(3.7)		
EPRA net asset value – undiluted	3,961.5	3,563	
Adjustment for:			
Potential conversion of 1.125% unsecured convertible bonds 2019	140.2		
EPRA net asset value – diluted	**4,101.7**		**3,535**
Adjustment for:			
Deferred tax on revaluation surplus	(8.7)		
Fair value of derivative financial instruments	(17.6)		
Mark-to-market of secured bonds	(42.2)		
Mark-to-market of fixed rate secured loan	(0.3)		
Mark-to-market of fixed rate unsecured private placement notes	(9.1)		
Unamortised issue and arrangement costs	(8.7)		
Non-controlling interest in respect of the above	3.7		
EPRA triple net asset value – diluted	**4,018.8**		**3,463**
Adjustment for 1.125% unsecured convertible bonds 2019:			
Remove conversion of bonds	(140.2)		
Unamortised issue and arrangement costs	(2.1)		
Mark-to-market of bonds	(29.4)		
EPRA triple net asset value – undiluted	3,847.1	3,460	
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	

Cost ratio

	2015 £m	2014 £m
Administrative expenses	**30.0**	28.1
Other property costs	**7.3**	6.4
Dilapidation receipts	**(0.7)**	(0.2)
Other costs	**0.3**	–
Net service charge costs	**1.9**	1.2
Service charge costs recovered through rents but not separately invoiced	**(0.2)**	(0.5)
Management fees received less estimated profit element	**(2.6)**	(2.0)
Share of joint ventures' expenses	**0.3**	0.1
EPRA costs (including direct vacancy costs) (A)	**36.3**	33.1
Direct vacancy costs	**(3.1)**	(1.8)
EPRA costs (excluding direct vacancy costs) (B)	**33.2**	31.3
Gross rental income	**148.3**	136.7
Ground rent	**(0.4)**	(0.4)
Service charge components of rental income	**(0.2)**	(0.5)
Share of joint ventures' rental income less ground rent	**1.4**	0.8
Adjusted gross rental income (C)	**149.1**	136.6
EPRA cost ratio (including direct vacancy costs) (A/C)	**24.3%**	24.2%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**22.3%**	22.9%

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

Property portfolio at fair value (D)	**4,954.5**	4,168.1
Portfolio cost ratio (A/D)	**0.7%**	0.8%

The Group has not capitalised any overhead or operating expenses in either 2015 or 2014.

Net initial yield and 'topped-up' net initial yield

	2015 £m	2014 £m
Property portfolio – wholly owned	**4,954.5**	4,168.1
Share of joint ventures	**33.9**	10.5
Less non-EPRA properties[1]	**(855.4)**	(679.8)
Completed property portfolio	**4,133.0**	3,498.8
Allowance for:		
Estimated purchasers' costs	**239.7**	202.9
Estimated costs to complete	**0.1**	0.1
EPRA property portfolio valuation (A)	**4,372.8**	3,701.8
Annualised contracted rental income, net of ground rents	**136.1**	131.7
Share of joint ventures	**1.0**	0.8
Less non-EPRA properties[1]	**(2.2)**	(7.6)
Add outstanding rent reviews	**1.7**	2.2
Less estimate of non-recoverable expenses	**(3.1)**	(1.9)
	(3.6)	(7.3)
Current income net of non-recoverable expenses (B)	**133.5**	125.2
Contractual rental increases across the portfolio	**35.5**	32.0
Less non-EPRA properties[1]	**(4.9)**	(9.3)
Contractual rental increases across the EPRA portfolio	**30.6**	22.7
'Topped-up' net annualised rent (C)	**164.1**	147.9
EPRA net initial yield (B/A)	**3.1%**	3.4%
EPRA 'topped-up' net initial yield (C/A)	**3.8%**	4.0%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

37 EPRA performance measures (continued)

Vacancy rate

	2015 £m	2014 £m
Annualised estimated rental value of vacant premises	**2.5**	7.1
Portfolio estimated rental value	**278.1**	216.5
Less non-EPRA properties[1]	**(83.6)**	(43.9)
	194.5	172.6
EPRA vacancy rate	**1.3%**	4.1%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

38 Total return

	2015 p	2014 p
EPRA net asset value on a diluted basis		
At end of year	**3,535.00**	2,908.00
At start of year	**(2,908.00)**	(2,264.00)
Increase	**627.00**	644.00
Dividend per share	**40.60**	37.40
Increase including dividend	**667.60**	681.40
Total return	**23.0%**	30.1%

39 Gearing and interest cover

NAV gearing

	2015 £m	2014 £m
Net debt	**911.7**	1,013.3
Net assets	**3,995.4**	3,075.7
NAV gearing	**22.8%**	32.9%

Loan-to-value ratio

	2015 £m	2014 £m
Net debt	**911.7**	1,013.3
Fair value adjustment of secured bonds	**(15.0)**	(16.0)
Unamortised issue and arrangement costs	**10.8**	13.3
Leasehold liabilities	**(23.2)**	(8.3)
Drawn debt net of cash	**884.3**	1,002.3
Fair value of property portfolio	**4,954.5**	4,168.1
Loan-to-value ratio	**17.8%**	24.0%

Net interest cover ratio

	2015 £m	2014 £m
Net property and other income	**148.6**	136.1
Other income	**(2.6)**	(2.0)
Other property income	**(3.7)**	(1.6)
Net surrender premiums received	**–**	(0.1)
Profit on disposal of trading properties	**(3.2)**	(3.9)
Reverse surrender premiums	**–**	0.4
Adjusted net property income	**139.1**	128.9
Finance income	**(0.1)**	–
Finance costs	**34.9**	42.4
	34.8	42.4
Adjustments for:		
Finance income	**0.1**	–
Other finance costs	**(0.2)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.0**	0.9
Amortisation of issue and arrangement costs	**(2.3)**	(3.3)
Finance costs capitalised	**5.0**	5.3
Net interest payable	**38.4**	45.1
Net interest cover ratio	**362%**	286%

40 Significant accounting policies

Basis of consolidation

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Gross property income

Gross property income arises from two main sources:

(i) Rental income – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with SIC 15 Operating Leases – Incentives and IAS 17 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free or half rent periods or capital contributions in lieu of rent free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IAS 17 Leases. Minimum lease payments receivable, again defined in IAS 17, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

(ii) Surrender premiums – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement.

Other income

Other income consists of commissions and fees arising from the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of service.

Expenses

(i) Lease payments – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

(ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

(iii) Reverse surrender premiums – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.

(iv) Other property expenditure – Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IAS 17 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

40 Significant accounting policies (continued)

Employee benefits

(i) Share-based remuneration

Equity settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of the options granted is calculated using a binomial lattice pricing model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.

(ii) Pensions

(a) Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

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

Business combinations

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

Investment property

(i) Valuation – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.

(ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.

(iii) Disposal – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.

(iv) Development – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Property, plant and equipment

(i) Owner-occupied property – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.

(ii) Artwork – Artwork is stated at revalued amounts on the basis of open market value.

(iii) Other – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments
Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

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

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

Financial assets
(i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

Financial liabilities
(i) Bank loans and fixed rate loans – Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.

(ii) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.

(iii) Convertible bonds – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

(iv) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(v) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

(vi) Trade payables – Trade payables are recognised and carried at the original transaction value.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historic cost of the properties.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Dividends
Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

Foreign currency translation
Transactions entered into by Group entities in currencies other than the entity's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the Group income statement.

EIGHT-YEAR SUMMARY
(UNAUDITED)

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m	2008[2] £m
Income statement								
Gross property income	**152.0**	138.4	131.6	124.8	125.5	119.4	123.8	119.0
Net property and other income	**148.6**	136.1	124.3	117.0	117.7	113.0	114.8	95.5
Profit/(loss) on disposal of properties and investments	**40.2**	30.2	53.5	10.8	36.1	0.9	(16.6)	1.2
Profit/(loss) before tax	**779.5**	753.7	467.9	228.1	233.0	352.8	(34.9)	(606.5)
EPRA profit before tax	**81.6**	62.3	57.8	52.5	52.3	55.2	61.8	22.2
Earnings and dividend per share								
EPRA earnings per share (p)	**71.34**	57.08	53.87	50.36	51.59	52.89	57.14	21.74
IFRS dividend (p)	**40.60**	37.40	34.50	31.85	29.60	27.60	24.50	23.15
Distribution of years' profit (p)	**43.40**	39.65	36.50	33.70	31.35	29.00	27.00	24.50
Net asset value								
Net assets	**3,995.4**	3,075.7	2,370.5	1,918.0	1,714.5	1,494.7	1,163.9	1,215.0
Net asset value per share (p) – undiluted	**3,528**	2,931	2,248	1,824	1,636	1,432	1,117	1,170
EPRA net asset value per share (p) – diluted	**3,535**	2,908	2,264	1,886	1,701	1,474	1,161	1,222
EPRA triple net asset value per share (p) – diluted	**3,463**	2,800	2,222	1,764	1,607	1,425	1,126	1,206
EPRA total return (%)	**23.0**	30.1	21.9	12.7	17.4	29.3	(2.9)	(30.6)
Property portfolio								
Property portfolio at fair value	**4,954.5**	4,168.1	3,353.1	2,859.6	2,646.5	2,426.1	1,918.4	2,108.0
Revaluation surplus/(deficit)	**651.4**	671.9	337.5	175.3	172.1	301.7	(81.1)	(602.1)
Cash flow statement								
Cash flow[1]	**(43.6)**	(57.3)	(65.9)	1.9	18.4	(171.6)	139.5	(83.7)
Net cash from operating activities	**76.0**	65.6	57.5	52.5	47.2	46.5	66.4	39.3
Acquisitions	**246.2**	92.4	130.1	99.8	91.6	148.0	10.2	31.9
Capital expenditure on properties	**116.4**	113.2	108.4	78.6	42.6	49.5	94.6	72.9
Disposals	**277.2**	114.4	149.7	161.0	131.5	8.5	195.5	72.6
Gearing and debt								
Net debt	**911.7**	1,013.3	949.2	874.8	864.5	887.8	720.8	865.4
NAV gearing (%)	**22.8**	32.9	40.0	45.6	50.4	59.4	61.9	71.2
Loan-to-value ratio (%)	**17.8**	24.0	28.0	30.0	32.0	35.7	36.4	39.7
Net interest cover ratio (%)	**362**	286	279	263	261	286	280	215

[1] Cash flow is the net cash from operating and investing activities less the dividend paid.

[2] 2008 was the Group's first full year following the merger of Derwent Valley Holdings plc and London Merchant Securities plc. It was also the Group's first full year as a REIT.

A list of definitions is provided on page 176.

EPRA SUMMARY
(UNAUDITED)

EPRA Measure	Definition	2015	2014
EPRA Performance Measures	Page 164		
EPRA earnings	Earnings from operational activities	**£78.7m**	£58.6m
EPRA undiluted earnings per share	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	**£71.3m**	£57.1m
EPRA NAV	NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model	**£4,101.7m**	£3,232.0m
EPRA diluted NAV per share	EPRA NAV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**3,535p**	2,908p
EPRA triple NAV	EPRA NAV adjusted to include the fair values of: (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable	**£4,018.8m**	£3,112.1m
EPRA diluted triple NAV per share	EPRA triple NAV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**3,463p**	2,800p
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	**1.3%**	4.1%
EPRA cost ratio (including direct vacancy costs)	Administrative and operating costs (including costs of direct vacancy) divided by gross rental income	**24.3%**	24.2%
EPRA 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 EPRA property portfolio, increased by estimated purchasers' costs	**3.1%**	3.4%
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)	**3.8%**	4.0%
EPRA Sustainability Performance Measures			
Total electricity consumption	Energy use across our total managed portfolio (landlord/common areas) – annual kWh	**11,748,376**	11,242,903
Like-for-like total electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	**9,827,041**	10,623,405
Total fuel consumption	Energy use across our total managed portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**15,782,576**	13,511,667
Like-for-like total fuel consumption	Energy use across our like-for-like portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**13,076,103**	13,040,951
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m^2	**82.62**	80.25
Total direct greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); a total of Scope 1 emissions – annual metric tonnes CO_2e	**3,186**	3,165
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy-use – annual metric tonnes CO_2e	**5,406**	5,527
Like-for-like total direct greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 1 energy-use – annual metric tonnes CO_2e	**2,248**	2,286
Like-for-like total indirect greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 2 energy-use – annual metric tonnes CO_2e	**4,542**	5,251
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m^2/£m turnover/fair market value (reported in tCO_2e/m^2) – kg CO_2e/m^2/year	**0.025**	0.028
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m^3	**160,217**	135,105
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m^3	**133,662**	127,112
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m^3/m^2/year	**0.50**	0.45
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	**2,413**	1,767
Like-for-like total weight of waste by disposal route	Waste generated across our like-for-like portfolio – annual metric tonnes and proportion by disposal route	**2,178**	1,682

PRINCIPAL PROPERTIES
(UNAUDITED)

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Central (57%)				
Fitzrovia[1] (36%)				
80 Charlotte Street W1	100-200	O/R/Re	F	380,000[3]
1-2 Stephen Street and Tottenham Court Walk W1	200+	O/R/L	F	266,000
132-142 Hampstead Road NW1	50-100	O	F	219,700
8 Fitzroy Street W1	100-200	O	F	147,900
Qube, 90 Whitfield Street W1	100-200	O/R/Re	F	109,500
The Copyright Building, 30 Berners Street W1	50-100	O/R	L	107,150[3]
Holden House, 54-68 Oxford Street W1	100-200	O/R	F	90,200
Henry Wood House, 3-7 Langham Place W1	50-100	O/R/L	L	79,900
Middlesex House, 34-42 Cleveland Street W1	50-100	O	F	65,700
Network Building, 95-100 Tottenham Court Road W1	50-100	O/R	F	63,700
120-134 Tottenham Court Road W1[2]	50-100	R/L	F	53,200
88-94 Tottenham Court Road W1	0-25	O/R	F	52,400
Charlotte Building, 17 Gresse Street W1	50-100	O	L	47,200
80-85 Tottenham Court Road W1	25-50	O/R	F	44,500
60 Whitfield Street W1	25-50	O	F	36,200
75 Wells Street W1	25-50	O/R	L	35,200
43 and 45-51 Whitfield Street W1	25-50	O	F	30,900
Rathbone Studios, 7-10 Rathbone Place W1	0-25	O/R/Re	L	23,100
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	20,300
73 Charlotte Street W1	0-25	O/Re	F	15,500
76-78 Charlotte Street W1	0-25	O	F	11,000
50 Oxford Street W1[4]	0-25	O/R	F/L	6,100
Victoria (12%)				
Horseferry House, Horseferry Road SW1	100-200	O	F	162,700
Greencoat and Gordon House, Francis Street SW1	100-200	O	F	145,100
1 Page Street SW1	100-200	O	F	127,800
Premier House, 10 Greycoat Place SW1	50-100	O	F	62,000
Francis House, 11 Francis Street SW1	25-50	O	F	57,000
6-8 Greencoat Place SW1	25-50	O	F	33,200
Baker Street/Marylebone (4%)				
19-35 Baker Street W1	50-100	O/R	L	77,800
88-110 George Street W1	25-50	O/R/Re	L	44,800
30 Gloucester Place W1	25-50	O/Re	L	23,600
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	22,000
17-39 George Street W1	25-50	O/R/Re	L	21,400
Soho/Covent Garden (2%)				
Bush House, South West Wing, Strand WC2	25-50	O	F	107,900
Tower House, 10 Southampton Street WC2	50-100	O/R/Re	F	52,800
1 Oxford Street W1	0-25	O/R/L	L	–
Mayfair (2%)				
25 Savile Row W1	50-100	O/R	F	42,000
Paddington (1%)				
Brunel Building, 55-65 North Wharf Road W2	50-100	O	L	240,000[3]

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Borders (9%)				
Islington/Camden (9%)				
Angel Building, 407 St. John Street EC1	200+	O/R	F	262,000
Angel Square EC1	100-200	O	F	126,900
4 & 10 Pentonville Road N1	25-50	O	F	53,400
Balmoral Grove and 1-9 Market Road N7	0-25	O/I	F	48,900
Porters North, 8-14 Crinan Street N1[5]	0-25	O	F	43,600
423-425 Caledonian Road N7	0-25	O	F	18,300
401 St. John Street EC1	0-25	O	F	12,300
City: Borders (32%)				
Clerkenwell (11%)				
20 Farringdon Road EC1	100-200	O/R/L	L	170,600
88 Rosebery Avenue EC1	50-100	O	F	103,700
Morelands, 5-27 Old Street EC1	50-100	O/R	L	88,900
The Buckley Building, 49 Clerkenwell Green EC1	100-200	O/R	F	85,100
Turnmill, 63 Clerkenwell Road EC1	50-100	O/R	F	70,500
19 Charterhouse Street EC1	25-50	O	F	63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	25-50	O	F	35,000
151 Rosebery Avenue EC1	0-25	O	F	24,000
3-4 Hardwick Street EC1	0-25	O	F	12,000
Holborn (6%)				
Johnson Building, 77 Hatton Garden EC1	100-200	O/R	F	157,100
40 Chancery Lane WC2	100-200	O/R	L	102,000
6-7 St. Cross Street EC1	25-50	O	F	33,800
Old Street (8%)				
White Collar Factory, Old Street Yard EC1	200+	O/R/Re	F	293,000[3]
1 Oliver's Yard EC1	100-200	O/R	F	185,500
Monmouth House, 58-64 City Road EC1	0-25	O	F	41,500
19-23 Featherstone Street EC1	0-25	O	F	27,500
Shoreditch/Whitechapel (7%)				
The White Chapel Building E1	100-200	O	F	270,000
Tea Building, 56 Shoreditch High Street E1	100-200	O/R/L	F	262,500
9 and 16 Prescot Street E1[5]	25-50	O/R	F	105,800
Provincial (2%)				
Scotland (2%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-100	R/L	F	323,000
Land, Bishopbriggs, Glasgow	25-50	–	F	5,300 acres

[1] Includes Euston and North of Oxford Street.
[2] Includes a 330-room hotel.
[3] Proposed scheme area.
[4] Includes 36-38 and 42-44 Hanway Street W1.
[5] Joint venture, Derwent London has a 50% interest.
( ) Percentages weighted by valuation.

Tech Belt (39%)

LIST OF DEFINITIONS
(UNAUDITED)

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 on the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

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

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

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

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in December 2014 (www.epra.com/media/EPRA_Best_Practices_Recommendations_BPR_-_Dec2014_1418399386044.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- EPRA earnings per share
  Earnings from operational activities.
- EPRA net asset value per share
  NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.
- EPRA triple net asset value per share
  EPRA NAV adjusted to include the fair values of: (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.
- EPRA cost ratio (including direct vacancy costs)
  EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.
- EPRA cost ratio (excluding direct vacancy costs)
  Calculated as above, but with an adjustment to exclude direct vacancy costs.
- EPRA net initial yield (NIY)
  Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.
- EPRA 'topped up' net initial yield
  This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).
- EPRA vacancy rate
  Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.
- EPRA like-for-like rental income growth
  The growth in rental income on properties owned throughout the current and previous year under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year and properties acquired or disposed of in either year.

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

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

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

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

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

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

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

Loan-to-value ratio (LTV)
Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities 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 all non-core items divided by interest payable on borrowings and non-utilisation fees.

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

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

Real Estate Investment Trust (REIT)
The UK Real Estate Investment Trust (REIT) regime was launched on 1 January 2007. On 1 July 2007, Derwent elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publically available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution. Property income distributions from the tax exempt property rental business will suffer withholding tax at 20% with withholding tax exemption for certain UK resident companies and tax exempt bodies.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors.

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 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 space that is vacant and available to occupy or under development or refurbishment.

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 (TPR)
The annual capital appreciation, net of capital expenditure, plus the net annual rental income received, expressed as a percentage of capital employed (property value at the beginning of the year plus capital expenditure).

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

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields
- Net initial yield
  Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.
- Reversionary yield
  The anticipated yield to which the net initial yield will rise once the rent reaches the estimated rental values.
- True equivalent yield
  The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.
- Yield shift
  A movement in the yield of a property asset, or like-for-like portfolio, over a given year. Yield compression is a commonly-used term for a reduction in yields.

LIST OF DEFINITIONS (UNAUDITED) CONTINUED

Sustainability and corporate responsibility

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions Scopes 1, 2 and 3
Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

CDP
The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

Department for Environment, Food and Rural Affairs (DEFRA)
The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

Global Real Estate Sustainability Benchmark (GRESB)
The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Global Reporting Initiative (GRI)
The GRI is an internationally recognised sustainability reporting framework which provides metrics and methods for measuring and reporting sustainability related impacts and performance.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)
The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work-related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

Transmission and distribution (T&D)
The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Well to tank (WTT)
The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.

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