REPORT & ACCOUNTS 2013

DERWENT LONDON PLC

OVERVIEW

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

Images and front cover: 1-2 Stephen Street W1

Derwent London owns and manages a 5.7 million sq ft (530,000m²) portfolio of commercial real estate located predominantly in central London. This makes us the largest London-focused real estate investment trust (REIT).

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

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

Reflecting and supporting our real estate activities, the business has a strong balance sheet with modest leverage, a robust income stream and flexible financing.

FLEXIBLE AND FORWARD THINKING – DISTINCTIVELY DERWENT

OVERVIEW

CLEAR


AND


DISTINCT

APPROACH

WHAT WE DO

Our principal objective is to deliver above average long-term returns to shareholders by providing well-designed and affordable offices in central London.

Previous pages: 4 Hardwick Street EC1


B

1
ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE

Purchase buildings in central London which can be improved or regenerated. Restructure leases to unlock additional value.

£130.2m
acquisitions of three properties

For more information see page 42

2
CREATE WELL-DESIGNED OFFICE SPACE

Transform properties to create adaptable, attractive, contemporary spaces for our tenants and the local community.

586,000SQ FT
currently under development or refurbishment

For more information see page 49

3
OPTIMISE INCOME

Employ our detailed knowledge of occupiers' needs to let to high-quality tenants from a wide range of businesses.

5.4%
increase in gross property income

For more information see page 44


C

A White Collar Factory, Old Street EC1
Work started at this site in January 2014 to create a 293,000 sq ft (27,220m²) campus

B Turnmill EC1
CGI of proposed façade and office entrance

C The Buckley Building EC1
Reception area of refurbished offices completed in 2013

For more information about the business model and strategy see page 24

4
RECYCLE CAPITAL

Identify properties for disposal where value has been optimised and sell those which do not fit the Group's long-term plans.

£151.3m
property sales

For more information see page 42

5
MAINTAIN ROBUST FINANCING

Negotiate flexible financing and retain a healthy level of interest cover and gearing.

279%
net interest cover ratio

For more information see page 62

KEY ACHIEVEMENTS

In 2013, we had a record year for lettings, added to and progressed our development pipeline and arranged £800m of refinancing.

20.0%
increase in EPRA net asset value per share

For more information see page 62

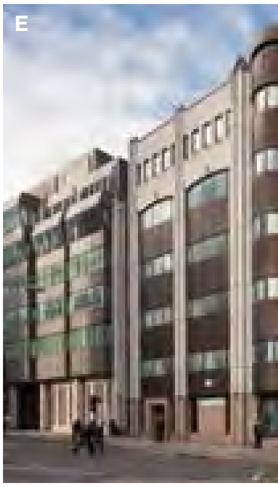
21.9%
total return

For more information see page 62

ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE

We bought:

- Mark Square House, 1 Mark Square EC2, a 61,700 sq ft (5,730m^2) Shoreditch office building for £29.6m
- 19 Charterhouse Street EC1, a 63,700 sq ft (5,920m^2) office building in Clerkenwell for £41.3m
- 22 Kingsway WC2 comprising 91,400 sq ft (8,490m^2) of offices as well as a theatre for £59.3m



D 22 Kingsway WC2
91,400 sq ft of offices in an improving area of Holborn bought in December 2013

E 19 Charterhouse Street EC1
Exterior of building opposite new Crossrail entrance to Farringdon station

F Morelands Buildings EC1
Ongoing refurbishment. 17,800 sq ft pre-let to AHMM, which completed in 2013 and achieved BREEAM 'Outstanding'

CREATE WELL-DESIGNED OFFICE SPACE

Completed 248,100 sq ft (23,050m^2) of major projects, with refurbishments of:

- 127,000 sq ft (11,800m^2) at 1 Page Street SW1
- 85,000 sq ft (7,900m^2) at The Buckley Building EC1
- 17,800 sq ft (1,650m^2) at Morelands Buildings EC1

G 1 Page Street SW1
Refurbishment completed in 2013. New headquarters building for Burberry

H The Buckley Building EC1
Refurbished 85,000 sq ft of offices on Clerkenwell Green

I Mark Square House EC2
61,700 sq ft of offices. Let to Thomson Reuters. Acquired in 2013

OPTIMISE INCOME

- Let all of The Buckley Building within six months of completion
- Pre-let 155,600 sq ft (14,460m^2) at 40 Chancery Lane WC2 and Turnmill EC1 to existing tenant Publicis Groupe
- Extended tenant's lease at the Grafton Hotel W1 from 77 to 150 years

RECYCLE CAPITAL

- Sold 1-5 Grosvenor Place SW1 for £131.4m, a 70% premium to December 2012 valuation
- Holdings in Commercial Road E1 sold for £16.7m

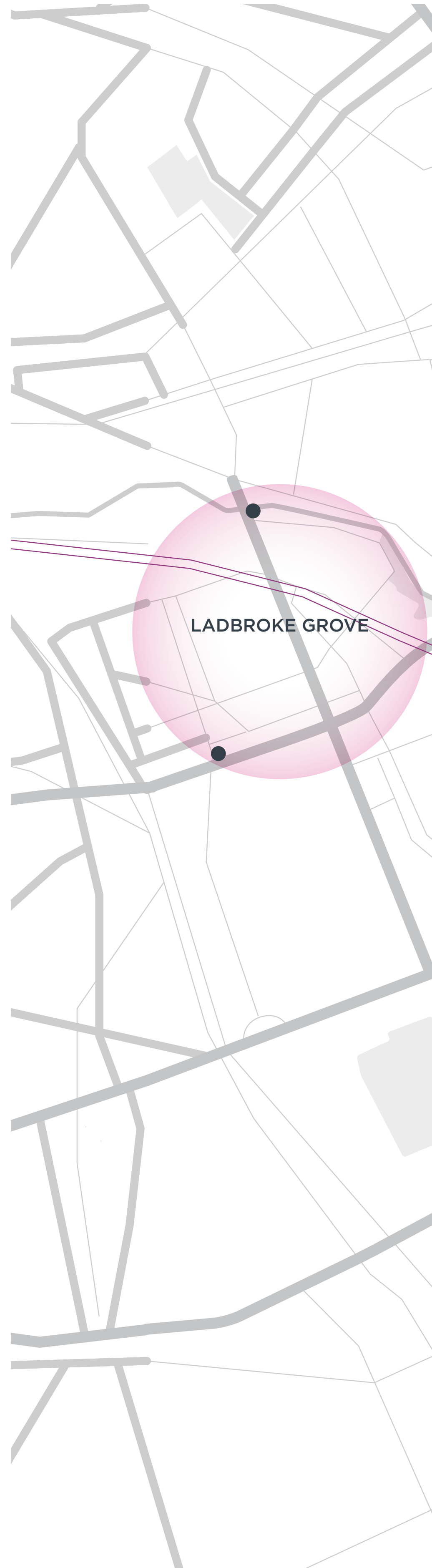
MAINTAIN ROBUST FINANCING

Completed £800m of unsecured refinancing:

- Issued £150m 1.125% convertible bonds due 2019 with a conversion price of £33.35 per share
- Completed £550m unsecured five-year revolving credit facility
- Signed £100m fixed rate unsecured private placement funding: £25m for 15 years at 4.41% and £75m for 20 years at 4.68%

OUR PORTFOLIO

Our portfolio comprises 5.7 million sq ft (530,000m^2) of properties valued at £3.4 billion. 97% of our properties are located in central London, grouped in 17 'villages', each with its own culture and identity. 71% can be found in the West End and 26% in the City borders. The balance relates to properties held in Scotland on the northern outskirts of Glasgow.



114
buildings

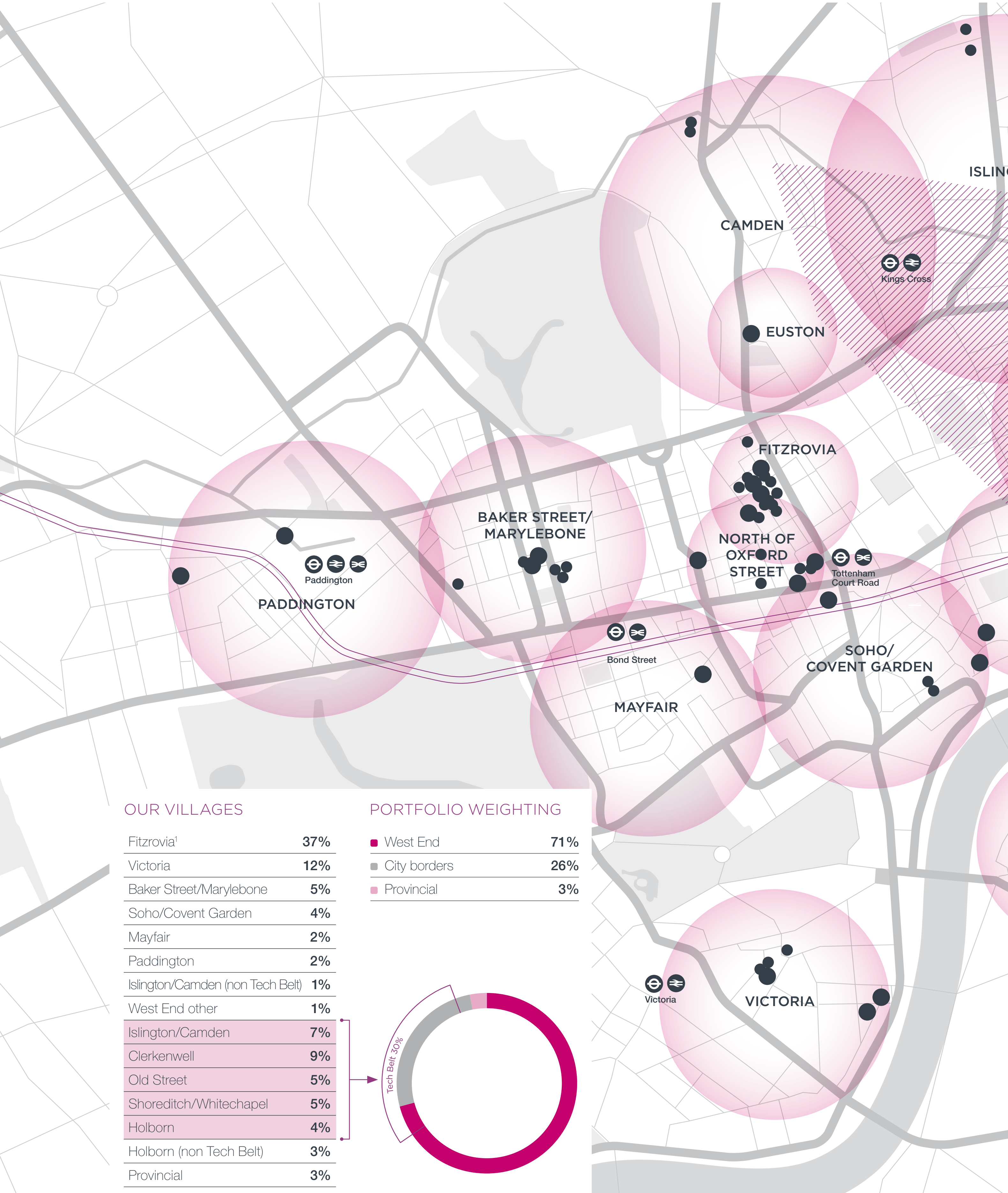
c.500
tenants

30%
portfolio weighting in Tech Belt

£3.4bn
portfolio valuation

£126.0m
net contracted rental income

£197.0m
estimated rental value



OUR VILLAGES

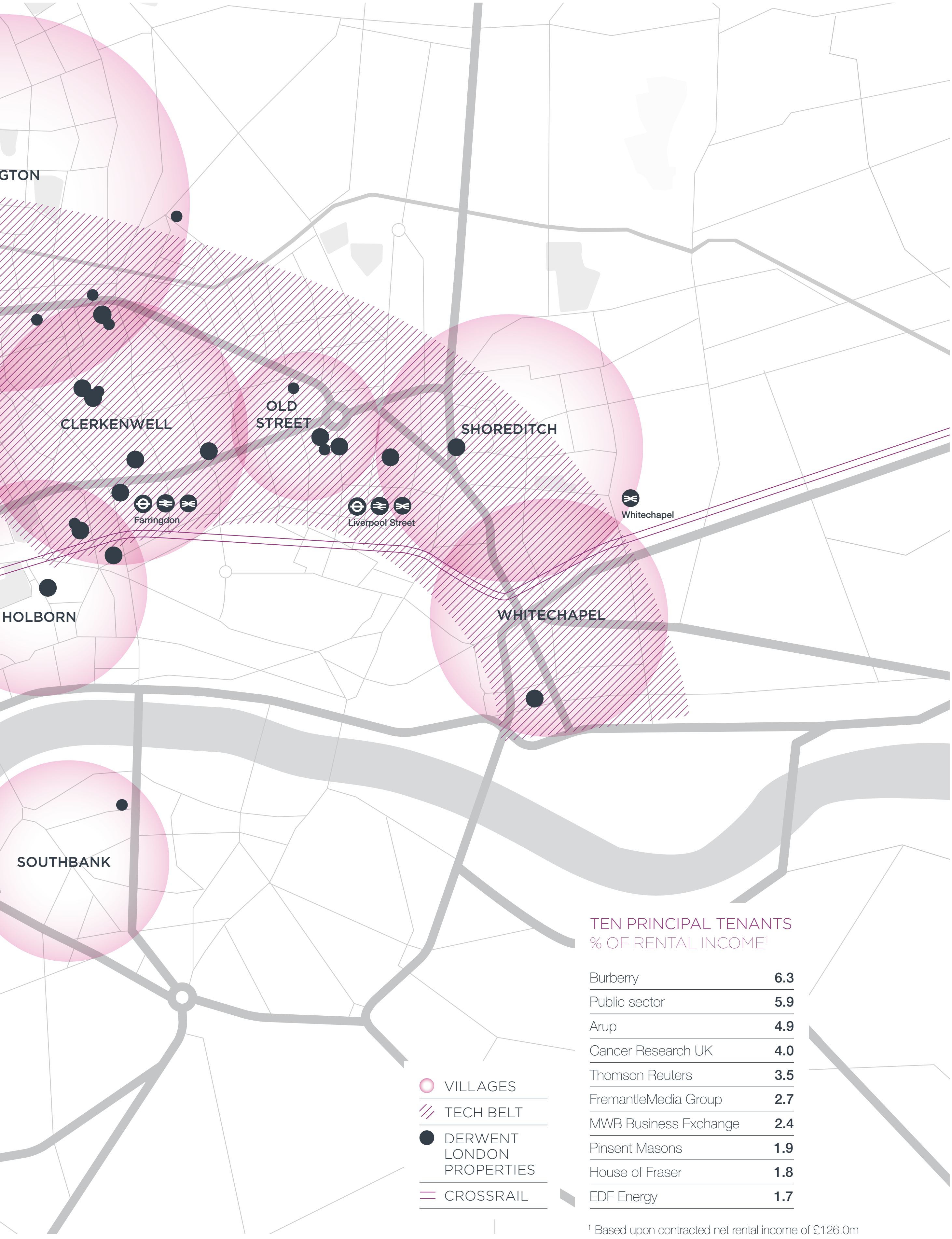
Fitzrovia[1]	37%
Victoria	12%
Baker Street/Marylebone	5%
Soho/Covent Garden	4%
Mayfair	2%
Paddington	2%
Islington/Camden (non Tech Belt)	1%
West End other	1%
Islington/Camden	7%
Clerkenwell	9%
Old Street	5%
Shoreditch/Whitechapel	5%
Holborn	4%
Holborn (non Tech Belt)	3%
Provincial	3%

[1] Includes North of Oxford Street and Euston

PORTFOLIO WEIGHTING

West End	71%
City borders	26%
Provincial	3%

Tech Belt 30%

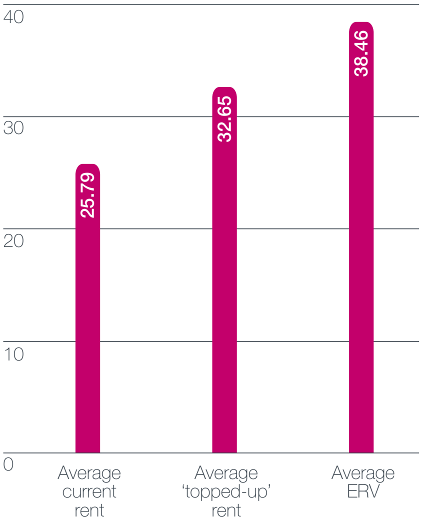


TEN PRINCIPAL TENANTS
% OF RENTAL INCOME[1]

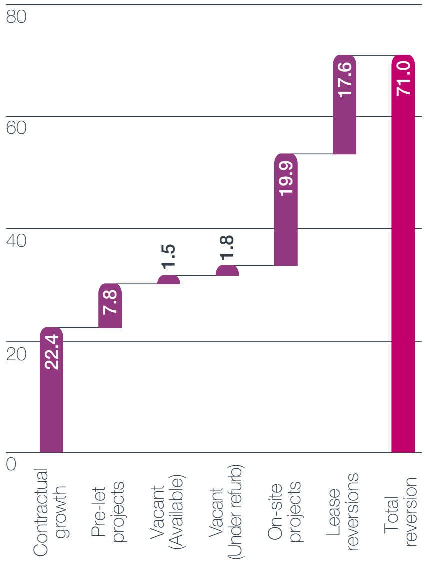
Burberry	6.3
Public sector	5.9
Arup	4.9
Cancer Research UK	4.0
Thomson Reuters	3.5
FremantleMedia Group	2.7
MWB Business Exchange	2.4
Pinsent Masons	1.9
House of Fraser	1.8
EDF Energy	1.7

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

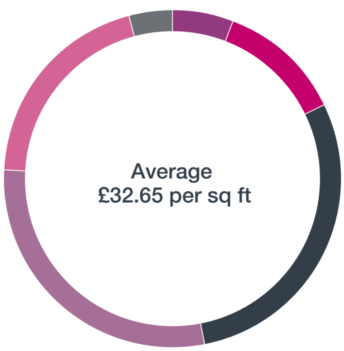
Central London office rent profile
£ per sq ft



Build up of reversion rental uplift
£m



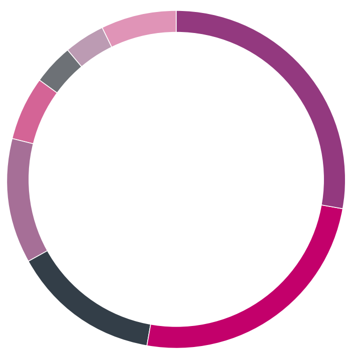
Office rent banding – 'topped-up' income[1] %



£0 – £20 per sq ft	6
£20 – £30 per sq ft	12
£30 – £40 per sq ft	29
£40 – £50 per sq ft	29
£50 – £60 per sq ft	20
£60+ per sq ft	4

[1] Expressed as a percentage of annualised 'topped-up' rental income

Profile of tenants' business sectors[1]
%



Media, TV, marketing and advertising	28
Professional and business services	25
Retail head offices, showrooms	14
Retail sales	12
Public sector	6
Charities	4
Financial	4
Other	7

[1] Expressed as a percentage of annualised rental income

OPEN HERE TO SEE
LONDON PORTFOLIO

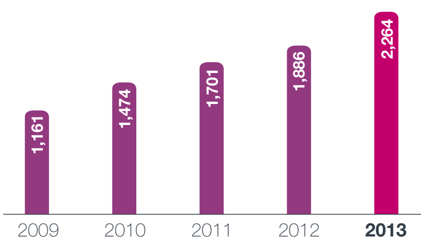
FINANCIAL HIGHLIGHTS EPRA MEASURES

For more information please see finance review on page 62 and note 17 for calculations

EPRA NAV per share

2,264p

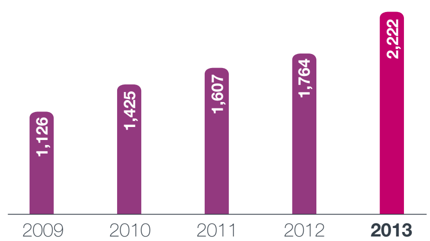
2012: 1,886p



EPRA NNNAV per share

2,222p

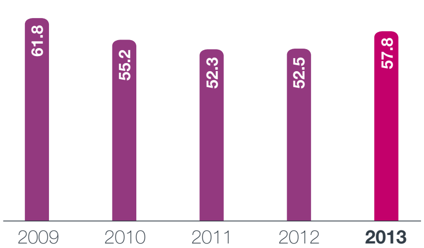
2012: 1,764p



EPRA profit before tax

£57.8m

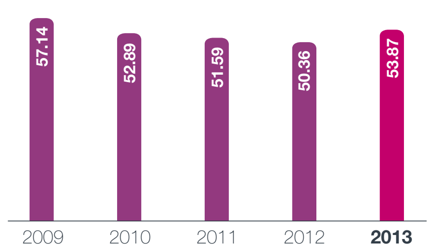
2012: £52.5m



EPRA earnings per share

53.87p

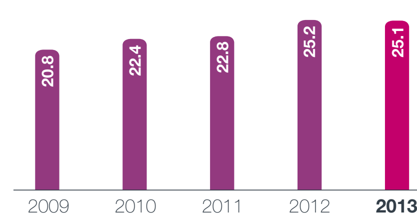
2012: 50.36p



EPRA cost ratio[1]

25.1%

2012: 25.2%



[1] Including direct vacancy costs

EPRA net initial yield

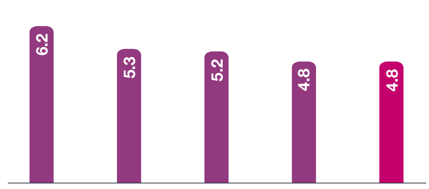
4.2%

2012: 4.3%

EPRA 'topped-up' net initial yield

4.8%

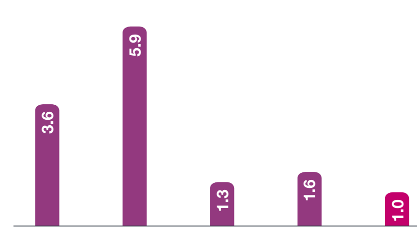
2012: 4.8%



EPRA vacancy rate

1.0%

2012: 1.6%

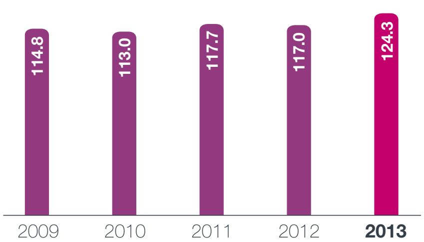


OTHER MEASURES

Net property income

£124.3m

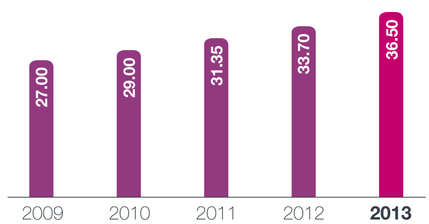
2012: £117.0m



Dividend per share

36.50p

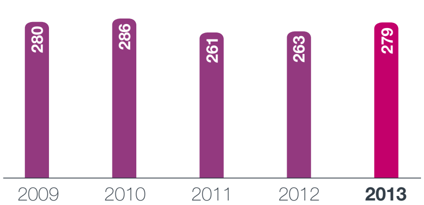
2012: 33.70p



Net interest cover ratio

279%

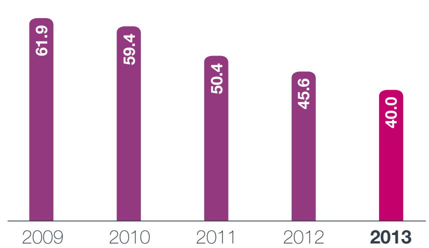
2012: 263%



NAV gearing

40.0%

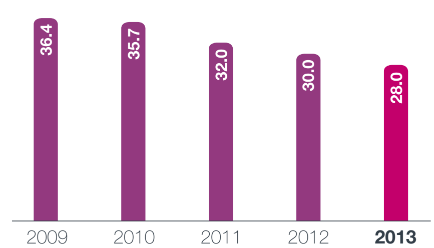
2012: 45.6%



Loan-to-value ratio

28.0%

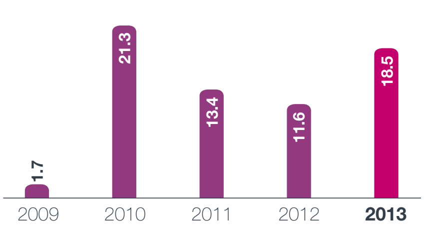
2012: 30.0%



Total property return

18.5%

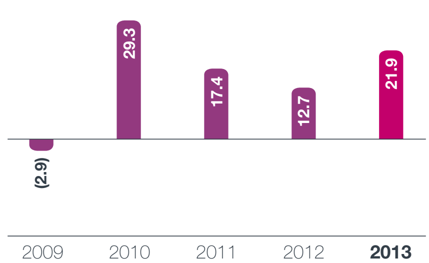
2012: 11.6%



Total return

21.9%

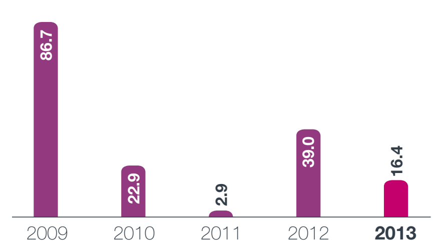
2012: 12.7%



Total shareholder return

16.4%

2012: 39.0%



CHAIRMAN'S STATEMENT

During the year we made excellent progress in all five aspects of our business model. Our consistent and successful strategy combined with buoyant markets to produce a very strong performance for the Group.

In 2013 we increased EPRA net asset value ('NAV') per share to 2,264p from 1,886p, a rise of 20.0% in the year. In addition EPRA profit before tax rose 10.1% despite a further acceleration in development activity during the year.

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

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

Optimising income

The letting markets for our distinctive space were vibrant throughout 2013 and this has continued into 2014. We achieved record new lettings on 643,200 sq ft (59,750m²) achieving a gross rent of £21.8m pa, or £20.8m pa after deducting ground rents. On average these transactions were agreed at 8.4% above December 2012 estimated rental value ('ERV').

For Derwent London, it was also an outstanding year for pre-lets, dominated by Publicis Groupe agreeing to take 155,600 sq ft (14,460m²) of offices at Turnmill EC1 and 40 Chancery Lane WC2 for a rent of £7.8m pa, allowing for the ground rent at Chancery Lane. Publicis Groupe will remain at our 80 Charlotte Street W1 property until these buildings are completed in the second half of 2014.

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

20.0%
increase in EPRA net asset value per share

10.1%
increase in EPRA profit before tax

8.3%
increase in dividend for the year

Creating well-designed office space

We have expanded our development pipeline to capitalise on the strong occupational market. In 2013 our capital expenditure was £103.0m, a 33% increase on 2012. Major projects totalling 248,100 sq ft (23,050m²) were completed, and all were either pre-let or let within six months of completion.

The Group currently has 586,000 sq ft (54,450m²) of major projects under construction, half of which is represented by the White Collar Factory EC1. We are on course to start a major development in each of the next two years, namely 80 Charlotte Street W1 in 2015 and 55-65 North Wharf Road W2 in 2016. There is substantial capital expenditure associated with our development programme, with around £280m forecast to be spent over the two years to the end of 2015.

In total we have 1.0 million sq ft (94,000m²) of consented future development and another 0.9 million sq ft (84,000m²) under active appraisal, all of which could be delivered by the end of the decade. This programme is comprised of a number of schemes at properties that remain income-producing and therefore gives us considerable flexibility in the timing of delivery.

Recycling capital

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

Acquiring properties and unlocking their potential

During the year, we acquired an aggregate 216,800 sq ft (20,140m²) of income-generating properties in emerging locations at a total cost of £130m (representing £601 per sq ft or £6,469 per m²). These transactions broadened our footprint in Shoreditch and Clerkenwell in the Tech Belt as well as in the Midtown village of Holborn. Our strategy of buying buildings off-market which are occupied and have the scope for improvement has provided an array of income-producing assets bought off reasonable yields. Each possesses regeneration opportunities in the medium to long-term. We continue to look for properties meeting these criteria to add to the portfolio.

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

CHAIRMAN'S STATEMENT
CONTINUED

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

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

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

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

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

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

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

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

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

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

"Letting and asset management initiatives over the last two years are being reflected in growing earnings and £800m of debt refinancing has further improved the resilience and flexibility of our strong balance sheet".

ROBERT RAYNE
NON-EXECUTIVE CHAIRMAN

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

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

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

£21.8m
of new lettings

248,100 sq ft
of major projects completed in the year

£800m
of new debt arranged

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

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

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

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

ROBERT A. RAYNE
27 FEBRUARY 2014

STRATEGIC REPORT

SMART


AND


FLEXIBLE

SPACES

OUR BUSINESS MODEL AND STRATEGY

At Derwent London, we focus on maximising the total return from our substantial central London portfolio. To this end, we typically acquire properties off-market with low capital values in improving areas of London, taking advantage of the dynamic nature of one of the world's great cities.

We balance development activity to maintain income where possible while freeing up space for regeneration.

We target that at least 50% of the portfolio has significant potential to upgrade. We take a fresh approach to each property, looking to complement its particular characteristics and add the maximum value to it. We do this in a combination of ways:

- rolling refurbishment
- infilling, converting or adding further floors to create additional space
- regeneration where the building is obsolete
- buying adjacent properties to increase our options for development
- negotiating with freeholders to restructure leasehold interests
- increasing the income return and improving capital values through asset management

A flexible, forward-thinking approach allows us to build sustainable workplaces that are adaptable, long-lasting, efficient and welcoming. Our team works with a variety of architects to create well-designed office space that tries to anticipate future tenant requirements. We are able to commit to our development schemes on a speculative basis because of the strength of our balance sheet, although schemes are sometimes partially or wholly de-risked through pre-letting before completion.

The majority of our portfolio is income-producing with reversionary rents. This means that open market rents are higher than the current passing rent, allowing us to increase rental income over time through rent reviews or by negotiating amended lease terms. Over time we have built up relationships with a set of strong tenants from a wide range of businesses. We frequently liaise with our tenant base and strive to improve our offering. We use this detailed understanding of tenants' needs to find the right space with the most suitable lease structure for each occupier, often seeking to move tenants within the portfolio where value can be enhanced.

We recycle capital into our most profitable projects by disposing of properties where we believe there is limited future growth.

Our business is supported by robust, flexible financing with sustainable interest and dividend cover, allowing the Group to achieve its development ambitions and react quickly when suitable acquisition opportunities arise.

From long experience our team has demonstrated that well-judged investment decisions, strong operational performance and appropriate regeneration activity supported by robust financing can achieve attractive, sustained returns.

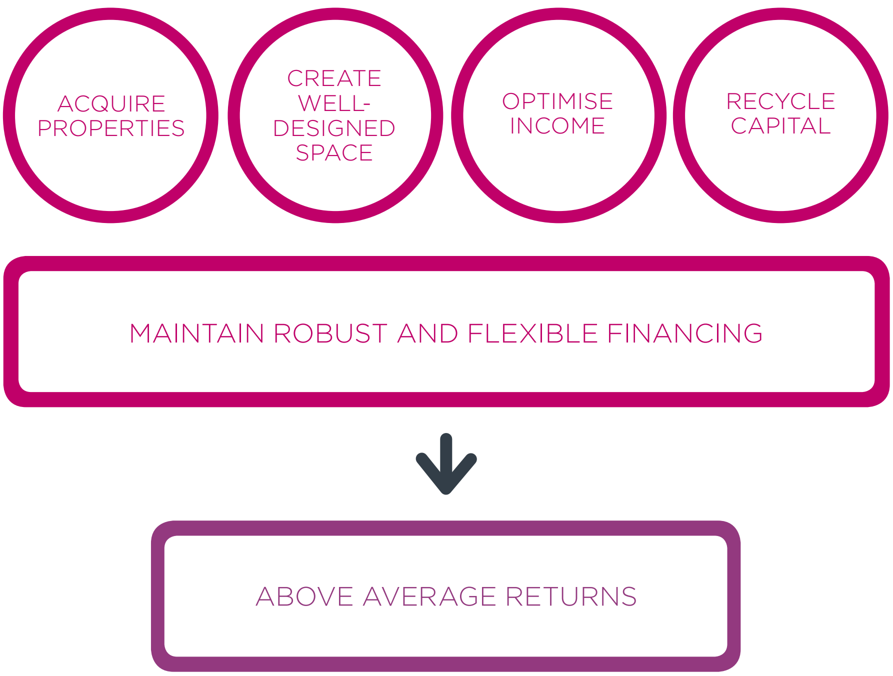
"With buildings in some of the most fashionable parts of London, Derwent has made a name for itself as the capital's coolest developer."

MANAGEMENT TODAY
BRITAIN'S MOST ADMIRED COMPANIES 2013

Previous pages:
The Buckley Building EC1

JOHN BURNS
CHIEF EXECUTIVE OFFICER

HOW WE CREATE VALUE



OUR BUSINESS MODEL

ACQUIRE PROPERTIES AND UNLOCK VALUE

Purchase buildings in central London which can be improved or regenerated. Restructure leases to unlock additional value.

p42

CREATE WELL-DESIGNED SPACE

Transform properties to create adaptable, attractive spaces for our tenants and the local community.

p49

OPTIMISE INCOME

Employ our detailed knowledge of occupiers' needs to let to high quality tenants from a wide range of businesses.

p44

RECYCLE CAPITAL

Identify properties for disposal where value has been optimised and dispose of those which do not fit the Group's long-term plans.

p42

MAINTAIN ROBUST AND FLEXIBLE FINANCING

Negotiate flexible financing and retain a healthy level of interest cover and gearing.

p62

OUR STRATEGIES		OUR ACHIEVEMENTS IN 2013

■ Buy at low capital values in improving locations, usually off-market, using our detailed understanding of London
■ Hold a variety of properties, primarily in the West End and the Tech Belt
■ Generate a number of revitalisation opportunities, both in terms of timing and scale
	■ Restructure ownership interests where necessary
	■ Maintain flexible financing and a strong balance sheet to allow us to transact quickly
		■ Purchased:
		  ■ Mark Square House, 1 Mark Square EC2, a 61,700 sq ft (5,730m²) Shoreditch office building for £29.6m
		  ■ 19 Charterhouse Street EC1, a 63,700 sq ft (5,920m²) office building in Clerkenwell for £41.3m
		  ■ 22 Kingsway WC2 comprising 91,400 sq ft (8,490m²).of offices in Holborn for £59.3m
		■ Regeared the lease on 55-65 North Wharf Road W2, unlocking the development of 240,000 sq ft (22,300m²) of permissioned offices

■ Collaborate with a range of architectural, design and engineering practices to create inspiring spaces
■ Incorporate high quality construction into these designs
■ Create attractive, adaptable offices, avoiding over-specification
■ Build green features into our developments to reduce the properties' environmental impact and to add to their appeal
	■ Adapt existing structures where possible, reducing the use of new materials
	■ Invest in public realm to provide attractive spaces for the local community, including our tenants
		■ Completed 248,100 sq ft (23,050m²) of major projects, with refurbishments of:
		  ■ 127,000 sq ft (11,800m²) at 1 Page Street SW1
		  ■ 85,000 sq ft (7,900m²) at The Buckley Building EC1
		  ■ 17,800 sq ft (1,650m²) at Morelands Buildings EC1

■ Offer attractive space at mid-market rents of £40-70 per sq ft that appeals to a range of tenants ■ Understand the needs of tenants and other stakeholders by building strong relationships with them through regular dialogue	■ Accommodate tenants' needs by altering lease lengths, or by moving them to elsewhere in the portfolio ■ Build features into new leases such as minimum rental uplifts to maximise income	■ Let all of The Buckley Building within six months of completion ■ Pre-let 155,600 sq ft (14,460m²) at 40 Chancery Lane WC2 and Turnmill EC1 to existing tenant Publicis Groupe ■ Extended the tenant's lease on the Grafton Hotel, 130 Tottenham Court Road W1 from 77 to 150 years, increasing rental income 56% to £920,000 pa from September 2013 and by 3% pa thereafter

■ Regularly review the status and options for each property in the portfolio
■ When market conditions are favourable, dispose of assets where:
  ■ we believe future growth is limited or
  ■ the assets are deemed non-core
	■ Maintain the proportion of the portfolio suitable for refurbishment or redevelopment in excess of 50%	■ Sold remaining interest in 1-5 Grosvenor Place SW1 for £131.4m, a 70% premium to the December 2012 valuation
		■ Sold holdings in Commercial Road E1 for £16.7m with planning permission for student accommodation

■ Assess sustainable gearing on a minimum level of interest cover and a maximum level for the Group's loan-to-value ratio
■ Maintain excellent long-term relationships with our lenders
■ Vary our sources of funding in accordance with the lending environment
■ Refinance facilities well in advance of expiry
	■ Provide adequate protection against changes in interest rates through the structure of our loans and the use of interest rate hedging
	■ Generate sufficient income from the portfolio to maintain comfortable interest cover and recurring profits
	■ Adjust the scale of the development pipeline depending on market conditions and the portfolio mix
		■ Completed £800m of unsecured refinancing:
		  ■ Issued £150m 1.125% convertible bonds due 2019 with a conversion price of £33.35 per share
		  ■ Completed £550m unsecured five-year revolving credit facility
		  ■ Signed £100m fixed rate unsecured private placement funding: £25m for 15 years at 4.41% and £75m for 20 years at 4.68%
		■ On a proforma basis, this reduced the cash cost of debt to 3.88%
		■ Extended the average duration of financing from 6.3 to 7.7 years

CURRENT AREAS OF FOCUS	ASSOCIATED KEY RISKS	KEY PERFORMANCE INDICATORS AND METRICS
• Add selectively to the portfolio, with a particular focus on properties in the Tech Belt and near Crossrail • Restructure leases where necessary to enable redevelopment	• Inconsistent strategy • Regulatory non-compliance • Reputational damage • Shortage of key staff	Interest cover ratio Development potential Capital return
• Complete current phase of 1-2 Stephen Street W1 office refurbishment • Complete construction of Turnmill EC1 and 40 Chancery Lane WC2 • Progress construction of White Collar Factory in EC1 • Planned capital expenditure in 2014 of £141m	• Inconsistent development programme • Property yields rise • Reduced development returns • Inconsistent strategy • Regulatory non-compliance • Reputational damage • Shortage of key staff	BREEAM ratings EPC ratings Capital return
• Launch letting campaign at 1-2 Stephen Street W1 • Monitor portfolio for further asset management initiatives	• Tenant default • Inconsistent strategy • Regulatory non-compliance • Reputational damage • Shortage of key staff	Tenant receipts Void management Reversionary percentage Diversity of tenants Tenant retention
• Monitor portfolio for further opportunities to recycle capital	• Property yields rise • Inconsistent strategy • Regulatory non-compliance • Reputational damage • Shortage of key staff	Interest cover ratio Capital return
• Monitor interest cover and maintain balance between development activity and income generation	• Higher interest rates • Property yields rise • Inconsistent strategy • Regulatory non-compliance • Reputational damage • Shortage of key staff	Interest cover ratio NAV gearing LTV ratio

Total property return

Total return

Total shareholder return

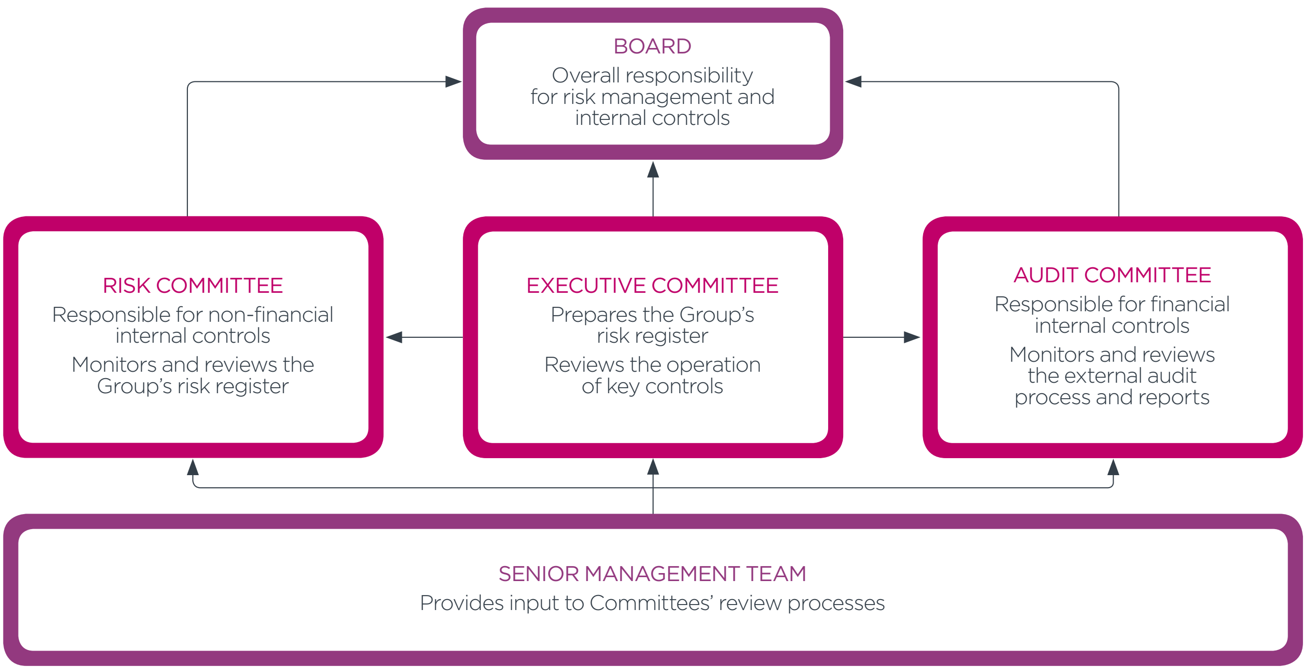
KEY PERFORMANCE INDICATORS

KEY METRICS

USED IN THE GROUP'S INCENTIVE SCHEMES

RISK MANAGEMENT

The Board recognises that risk is an inherent part of running a business and, whilst it aims to maximise returns, the associated risks must be understood and managed.



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

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

A key element in the system of internal controls is the Group's risk register which is reviewed formally by the Board once a year. During 2013, the Group's processes for preparing the risk register and reporting the results both internally and externally were reviewed by a third party. Whilst no major points were identified a number of recommendations were made which were implemented in preparing the register this year. The register is prepared by the members of the Executive Committee who, having identified the risks, collectively assess the severity of each risk, the likelihood of it occurring and the strength of the controls in place. This approach allows the effect of any mitigating procedures to be reflected in the final assessment. It also recognises that risk cannot be totally eliminated at an acceptable cost and that there are some risks which, with its experience and after due consideration, the Board will choose to accept.

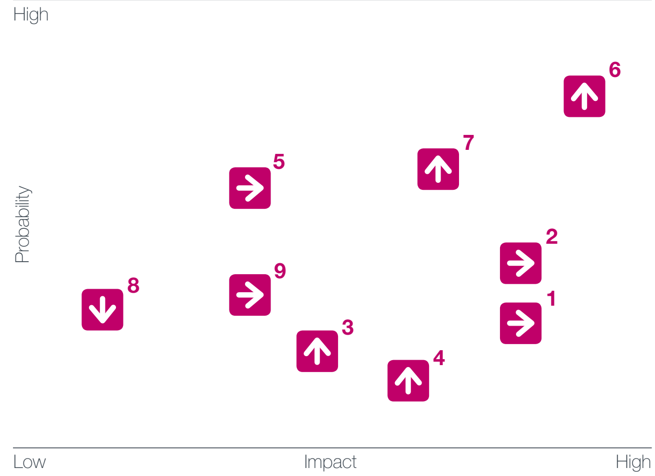
The register, its method of preparation and the operation of the key controls in the Group's system of internal control, are reviewed throughout the year by the Risk Committee which periodically receives presentations from senior management to gain a more in-depth understanding of the control environment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

These graphs show the probability and impact for our main risks together with the changes in the assessment of the risks since 2012. These movements are also split between the three risk categories and the third graph details the movement in the overall risk by category over the past five years.

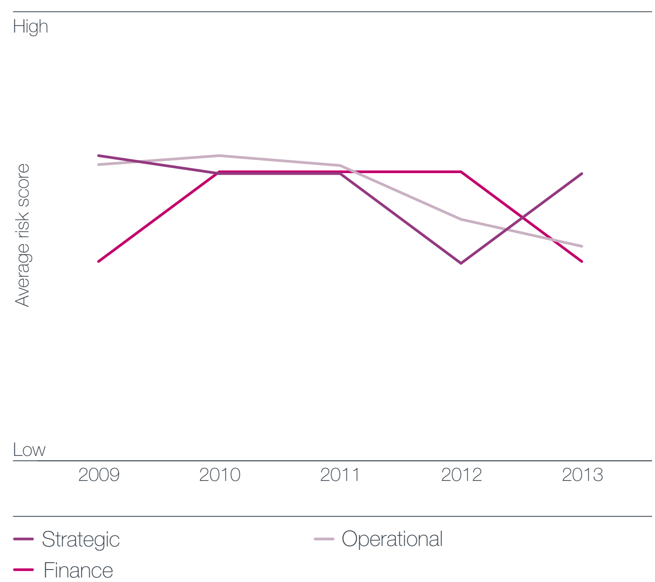
The principal risks and uncertainties that the Group faces in 2014, together with the controls and mitigating factors, are set out on the following pages.

For more information see pages 111 and 150

2013 major risks



Average risk by category



"As risk management continues to move up the business agenda, the activity of the Risk Committee has become more important and increasingly embedded in the Group's activities."

ROBERT RAYNE
CHAIRMAN

RISK MANAGEMENT
CONTINUED

Strategic risks

That the Group's strategy does not create the anticipated shareholder value or fails to meet investors' expectations.

Risk, effect and progression	Controls and mitigation	Action
1. Inconsistent strategy The Group's strategy is inconsistent with the state of the market in which it operates. **2. Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. The Group currently benefits from a strong central London market which could be adversely affected by a number of high level economic factors. This would reduce the value of the Group's portfolio with a consequent effect on two of its KPIs – total return and total property return. The Board sees the level of these risks as broadly unchanged from last year.	■ The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios caused by changing the main underlying assumptions to reflect different economic scenarios. ■ The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility arises from the policy of maintaining income from properties for as long as possible until development starts. ■ Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable. ■ The risks remain significant and therefore in forming its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	■ The last annual strategic review was carried out by the Board in June 2013. This considered the sensitivity of six key measures to changes in underlying assumptions including interest rates and borrowing margins, timing of projects, level of capital expenditure and capital recycling. ■ The three rolling forecasts prepared during the year focus on the same key measures but consider the effect of varying different assumptions to reflect changing economic and market conditions. ■ The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. ■ During the year the Group's loan-to-value ratio remained below 30%, its net interest cover ratio was above 250% and the REIT ratios were comfortably met.
3. Regulatory non-compliance The Group's cost base is increased and management time diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. An increase in costs would directly impact on the Group's total return KPI. A significant diversion of management time could affect a wider range of key metrics. This risk is seen to have increased over the year due to the increased scale of the legislative and regulatory environment and the number/frequency of changes made to the legislative and regulatory framework.	■ The Group's Risk Committee reports to the Board concerning regulatory risk. ■ The Group employs a Health and Safety Manager. ■ The Group employs a sustainability manager who reports to the sustainability committee which is chaired by Paul Williams. ■ The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet.	■ The Risk Committee receives an annual report from the Group's legal advisors which identifies the expected legislative changes for the next 12 months. ■ A Health and Safety report is presented at all Executive Committee and main Board meetings. ■ The Executive Committee receives regular reports from the sustainability manager. ■ The Group pays considerable attention to sustainability issues and produces a sustainability report annually.
4. Reputational damage The Group's reputation is damaged through unauthorised and inaccurate media coverage. This risk would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to have increased over the year because it considers that the importance of the Group's reputation/brand has risen.	■ All new members of staff benefit from an induction programme and are issued with the Group's Staff Handbook. ■ Social media channels are monitored. ■ The Group takes advice on technological changes in the use of media and adapts its approach accordingly. ■ There is an agreed procedure for approving all external statements.	■ The Group employs a Head of Investor Relations and retains the services of an external PR agency. Both maintain regular contact with external media sources. ■ The Group engages with a number of local community bodies in areas where it operates as part of its CSR activity.

Financial risks

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

Risk, effect and progression	Controls and mitigation	Action
5. Higher interest rates Financing costs are higher due to increases in interest rates. This risk would affect the Group's interest cover ratio KPI. The Board sees this risk as unchanged over the year.	■ The Group uses interest rate derivatives to 'top-up' the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	■ During the year the Group terminated two interest rate swaps which were at historic rates and initiated new instruments which have locked in the lower long-term rates that are currently available. ■ 83% of borrowings were fixed or hedged at the year end. ■ Additional 15 and 20-year fixed rate debt was put in place in January 2014.
6. Increase in interest rates Increases in interest rates can lead to higher property yields which cause property values to fall. This 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 are at or near historical lows. With the UK's improving economic background, gilt rates have already risen and a base rate rise is likely within the next two years. Though there is no direct relationship, this may cause property yields to soften in due course and therefore the Board considers this risk to have increased over the year.	■ The impact of such changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved. ■ The impact of potential yield changes is considered when future projects are appraised.	■ The Group produces three rolling forecasts each year which contain detailed sensitivity analyses. ■ Quarterly management accounts report on the Group's performance against covenants and ratios. ■ Project appraisals are regularly reviewed and updated. ■ Changes to the Group's financing profile over the year has simplified the management of its financial covenants.

Key

Risk increase

Risk unchanged

Risk decrease

Operational risks

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

Risk, effect and progression	Controls and mitigation	Action
7. Reduced development returns The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: ■ Delays in the planning process. ■ Delays due to contractors/ sub-contractors defaulting. ■ Increased construction costs. ■ Adverse letting conditions. This would have an effect on the Group's total return and total property return KPIs. Taken as a whole the Board considers this risk to have increased since last year. This reflects that the scale of the Group's development programme and, therefore, its influence on the Group's results has increased.	■ Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. ■ The scale of the Group's development programme is managed to reflect anticipated market conditions. ■ Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage. ■ Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified and implemented. ■ Alternative procurement methods are being evaluated as a way of minimising the effect of increased construction costs.	■ The Group is advised by top planning consultants and has considerable in-house planning expertise. ■ Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. ■ The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. ■ Development costs are benchmarked to ensure that the Group obtains competitive pricing. ■ The Group's style of accommodation remains in demand as evidenced by the 67 lettings achieved in 2013 which totalled 643,200 sq ft. ■ The Group has secured significant pre-lets of the space in its current development programme which significantly 'de-risks' these projects.
8. Tenant default The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. This risk would have an immediate effect on the Group's tenant receipts and void management KPIs and, if significant, on the total property return, total return and interest cover ratio. The Board considers this risk to have decreased over the last year due to very low historic default levels, the increased diversity of tenants and the healthier outlook for the UK economy.	■ All prospective tenants are considered by the Group's Credit Committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. ■ The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. ■ The Group's Credit Committee regularly reviews a list of slow payers and considers what actions should be taken.	■ The Group has a diversified tenant base (see pages 12 and 13). ■ The Credit Committee meets each week and considered 103 potential tenants during the year. ■ In total the Group holds rental deposits amounting to £11.2m. ■ On average during the year, the Group has collected 98% of the rents due within 14 days of the due date.
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 of the Group's KPIs. The risk is seen as unchanged over the year.	■ The remuneration packages of all employees are benchmarked regularly. ■ Six-monthly appraisals identify training requirements which are fulfilled over the next six months. ■ The Nominations Committee considers succession matters as a standard agenda item.	■ The Group recruited 10 new members of staff during 2013. The key appointment of a sustainability manager was made in January 2013. ■ Staff turnover during 2013 was low at 6% (7% including retirees).

MEASURING OUR PERFORMANCE

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

Key performance indicators

We have established a set of Key Performance Indicators (KPIs) which are measured against relevant external and internal benchmarks. For definitions please see pages 166 and 167.

Total return

Our total return reflects the combined effectiveness of all the strands of our strategy. It equates to the combination of NAV growth plus dividends paid during the year and we aim to exceed the average of the other major UK REIT companies.

Total property return

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 All UK Property Index on a three-year rolling basis.

Void management

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

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.

Interest cover ratio

We aim for our interest payable to be covered at least 1.5 times by net rents or two times by gross rents. Following our recent refinancing we are changing the main interest cover measure to a net basis, which is similar to the covenant included in the loan documentation for the new unsecured bank facility. Please see note 28 for the calculation of the new measure.

BREEAM ratings

Sustainability has always been at the heart of Derwent London's business model and it is important that our buildings are not only attractive to tenants but 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. All of our developments in excess of 5,000m² should obtain a minimum BREEAM rating of 'Very Good'.

Key metrics

In addition to these KPIs, we also use additional metrics to monitor the performance of the business. These are discussed in more detail on pages 36 and 37.

European Public Real Estate Association (EPRA)

EPRA is an association of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. This includes guidelines for the calculation of the performance measures listed below and which the Group has adopted.

- Earnings per share
- Net asset value per share
- Triple net asset value per share
- Net initial yield (NIY)
- 'Topped-up' net initial yield
- Vacancy rate
- Like-for-like rental income growth
- Cost ratio

For definitions please see pages 166 and 167.

These figures are reported on page 14 and derived in note 17.

Link to remuneration

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

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 index.

Bonus scheme

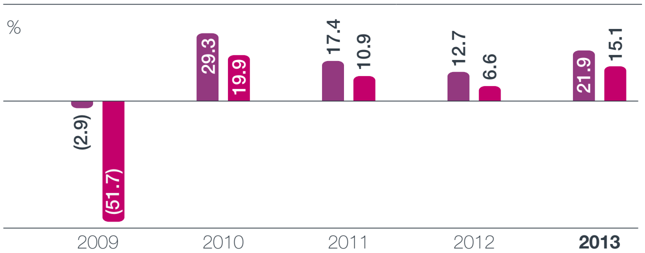
The Group's bonus scheme takes into account the total return, the total property return together with a number of other key metrics referred to above.

To read more on the link to remuneration see pages 93 to 96

KEY PERFORMANCE INDICATORS AND METRICS

KEY PERFORMANCE INDICATORS

Total return



- Derwent London
- Weighted average of major UK REIT companies

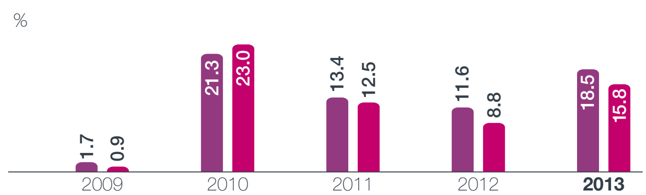
Our performance
In 2013 our total return of 21.9% again comfortably exceeded our benchmark, the average of the other major REITs. Our cumulative performance over the past five years was 102% compared to the benchmark which produced a negative return of 21%.

Strategies measured:
- Acquiring properties
- Creating well-designed office space
- Optimising income
- Recycling capital
- Maintaining robust financing

p62

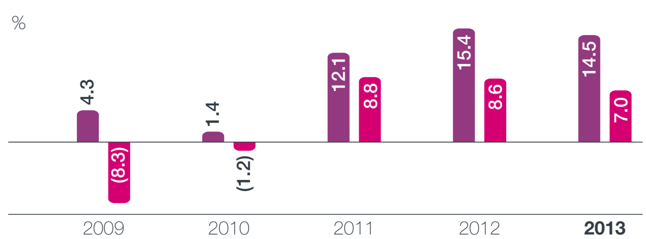
Total property return

Annual



- Derwent London
- IPD Central London Offices Index

Three-year rolling



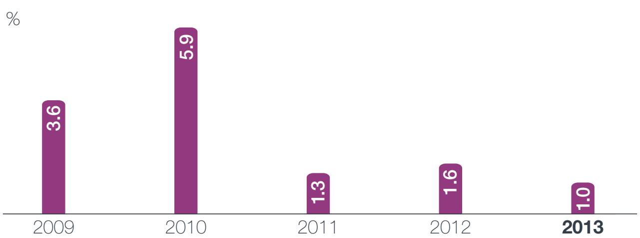
- Derwent London
- IPD All UK Property Index

Our performance
We exceeded both of our IPD benchmarks again in 2013. Over the past five years we have exceeded the IPD Central London Offices Index and the IPD All UK Property Index by 9% and 68% respectively.

Strategies measured:
- Acquiring properties
- Creating well-designed office space
- Optimising income
- Recycling capital

p40

Void management



Our performance

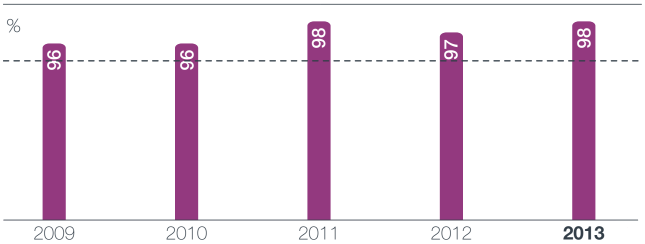
Due to our letting success over the past few years, the EPRA vacancy rate has remained consistently low and well below our maximum guideline of 10%.

Strategies measured:

- Optimising income

p44

Tenant receipts



--- Benchmark

Our performance

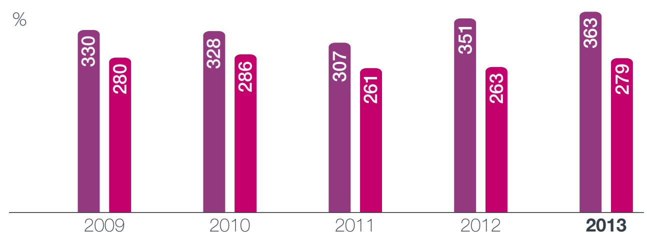
Due to the quality of our tenants and the performance of our credit control, rent collection has remained high over the past five years and consequently the level of defaults has been de minimis.

Strategies measured:

- Optimising income

p44

Interest cover ratio



- Gross interest cover
- Net interest cover

Our performance

The gross interest cover comfortably exceeded our benchmark of 200% in each of the past five years. The benchmark for our new net interest cover ratio, which will be presented going forward, has been set at a minimum of 150%.

Strategies measured:

- Acquiring properties
- Recycling capital
- Maintaining robust financing

p62

BREEAM ratings

	Completion	Rating
The Buckley Building	April 2013	Very good
Morelands Buildings	April 2013	Outstanding
1 Page Street	July 2013	Excellent
Turnmill	Q3 2014[1]	Excellent
40 Chancery Lane	Q4 2014[1]	Excellent
1-2 Stephen Street	2013/14[1]	Very good

[1] Expected

Our performance

We are pleased that all of completions in 2013 met or exceeded our benchmark and the Morelands Buildings' rooftop scheme achieved an 'Outstanding' rating. We expect all our 2014 projects to maintain this high performance.

Strategies measured:

- Creating well-designed office space

p49

KEY PERFORMANCE INDICATORS AND METRICS
CONTINUED

KEY METRICS

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.

Reversionary percentage
This is the percentage by which the cash flow from rental income would increase, were the passing rent to be increased to the estimated rental value. It is used to monitor the potential future income growth of the Group.

Diversity of tenants
A diverse tenant base, both in number and across different industries, protects our income stream. This spread is monitored regularly and is shown in the graph on page 13.

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

Gearing
Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value 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.

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

Energy Performance Certificates (EPC)
EPCs tell us 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.

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.

Total shareholder return
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.

Portfolio earmarked for development

%	2009	2010	2011	2012	2013
	50	51	51	53	**55**

Our performance
The percentage of our portfolio which is available for redevelopment, regeneration or refurbishment was 55% at the end of 2013 and has remained above 50% for the past five years.

Strategies measured:
- Acquiring properties

p49

Reversionary percentage

%	2009	2010	2011	2012	2013
Reversion	14	27	42	46	**56**

Our performance
The 56% reversion in the portfolio demonstrates the growth potential in our income stream.

Strategies measured:
- Optimising income

p40

Tenant retention

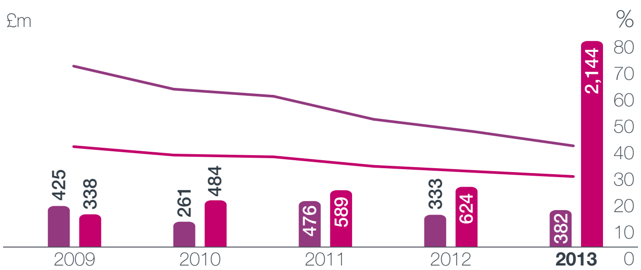
	2009	2010	2011	2012	2013
Exposure (£m pa)	12.1	11.5	16.2	14.7	**20.0**
Retention (%)	66	72	72	81	**74**
Re-let (%)	18	17	21	5	**14**
Total (%)	84	89	93	86	**88**

Our performance
In order to protect our income stream, where we do not have redevelopment plans, it is important for us to retain tenants at lease expiry or break. Our retention was 88% in 2013 and averages 88% over the past five years.

Strategies measured:
- Optimising income

p44

Gearing and available resources



- Headroom[1] (£m)
- Unsecured properties (£m)
- NAV gearing (%)
- Loan-to-value (%)

Our performance

Our gearing levels reduced again in 2013 and our recent unsecured refinancing increased our headroom as well as the level of unsecured properties.

Strategies measured:

- Maintaining robust financing

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[1] 2013 shown after drawdown of £100m fixed rate loan in January 2014

Energy Performance Certificates (EPC)

	Completion	Rating
The Buckley Building	April 2013	B
Morelands Buildings	April 2013	B
1 Page Street	July 2013	C
Turnmill	Q3 2014[1]	B
40 Chancery Lane	Q4 2014[1]	B
1-2 Stephen Street	2013/14[1]	C

[1] Expected

Our performance

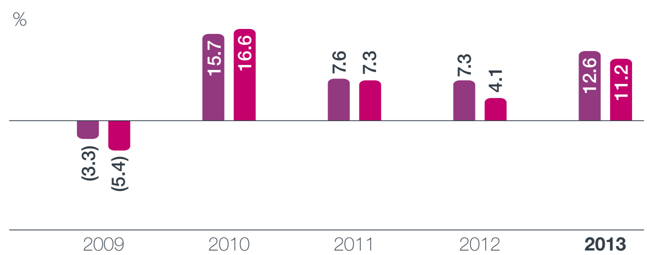
All our 2013 and 2014 completions have, or are planned to, match or exceed our benchmark.

Strategies measured:

- Creating well-designed office space

p58

Capital return



- Derwent London
- IPD Central London Offices Index

Our performance

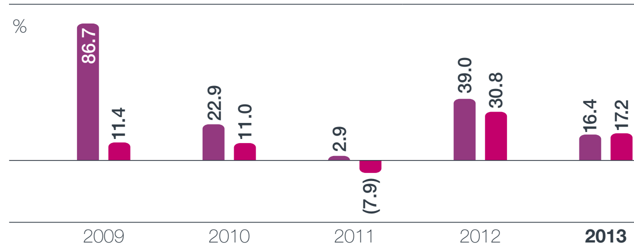
In 2013 we again exceeded our IPD benchmark, outperforming by 1.4% and over the past five years by a total of 8.4%.

Strategies measured:

- Acquiring properties
- Creating well-designed office space
- Recycling capital

p40

Total shareholder return



- Derwent London
- FTSE All-Share Real Estate Investment Trust Index

Our performance

2013 saw the Group marginally underperform our benchmark index. This result is partially due to our strong performance over the past five years which has resulted in a total outperformance of 207%.

Strategies measured:

- Acquiring properties
- Creating well-designed office space
- Optimising income
- Recycling capital
- Maintaining robust financing

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OUR MARKET

London is one of a few truly global cities: a position that has strengthened in the last few years. It is the UK's largest single economic market and is enjoying relatively strong growth.

The impact of strong growth is clearly positive on our London villages where there has been strong occupier take-up and high levels of investment activity. This has been reflected in rising rents, falling yields and continuing outperformance against the rest of the UK.

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

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

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

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

West End office development pipeline

Source: CBRE

"We have the universities… we've got the lunar pull of London. People just want to be here. They're attracted by the sheer agglomeration of talent. They come for the vibe in London – the vibe, which not even we politicians can do anything to spoil."

BORIS JOHNSON, MAYOR OF LONDON
13 MARCH 2014

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

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

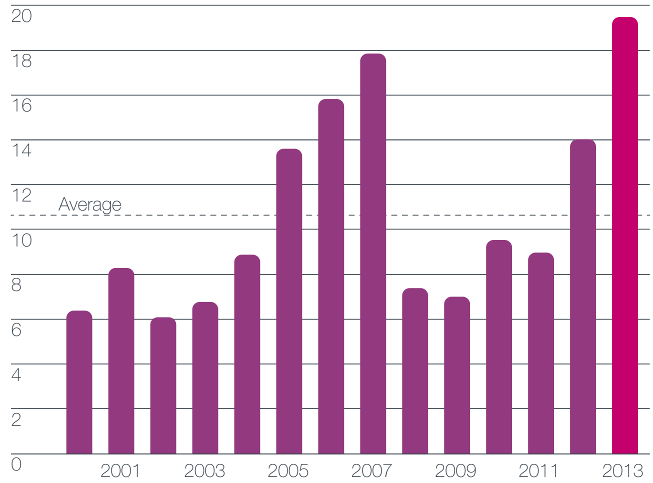
Tech Belt and TMT/creative demand stand out, but we are also seeing demand from a variety of other sectors across London. We stressed earlier London's diversity and broad base. Improving business confidence has benefited most central London office markets and many businesses. CBRE is reporting good rental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

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

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

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

Central London office investment transactions £bn



Source: CBRE

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

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

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

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

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

"Our competition is only going to be in other cities that have similar kinds of characteristics. And the city that comes to mind is London."

MICHAEL BLOOMBERG, MAYOR OF NEW YORK
EVENING STANDARD, 14 OCTOBER 2013

VALUATION

A buoyant letting market, rental growth and record investment turnover provided favourable conditions for central London commercial property values to rise during 2013.

NIGEL GEORGE
EXECUTIVE DIRECTOR

It was in this buoyant environment that the Group's investment portfolio was valued at £3.35bn at 31 December 2013. There was a valuation surplus of £352.5m before accounting adjustments of £15.0m (see note 18), giving a total reported movement of £337.5m.

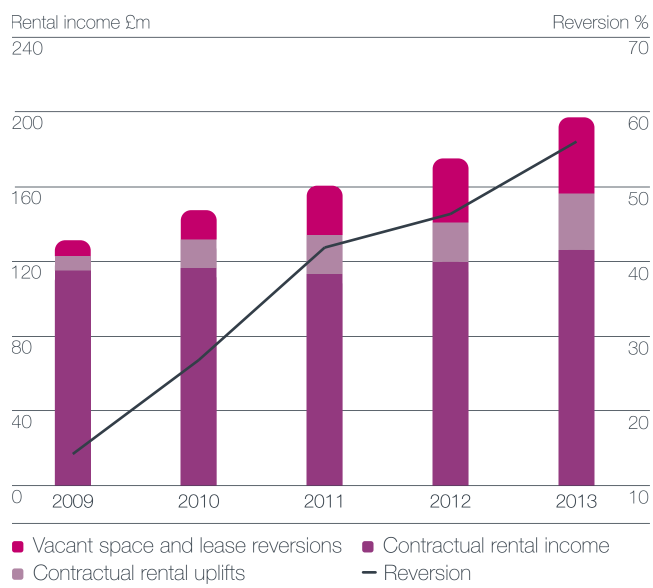
The underlying valuation increase for 2013 was 12.6%, outperforming the 7.3% achieved in 2012. During the year we achieved an outstanding gain on the disposal of 1-5 Grosvenor Place SW1 for £132.5m before costs. If this building had been retained and revalued at the sale price, the portfolio's underlying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

Within the investment portfolio, we are undertaking a number of major projects. At the beginning of 2013, these comprised four developments (The Buckley Building, 1 Page Street, Turnmill and 40 Chancery Lane), and two major refurbishments (1-2 Stephen Street Phases 1 and 2 and Morelands Buildings' rooftop scheme). During the year, two residential projects were added, namely Queens and 73 Charlotte Street, and recently we started our White Collar Factory office-led project.

£337.5m
valuation surplus

12.6%
underlying valuation uplift

Portfolio reversion

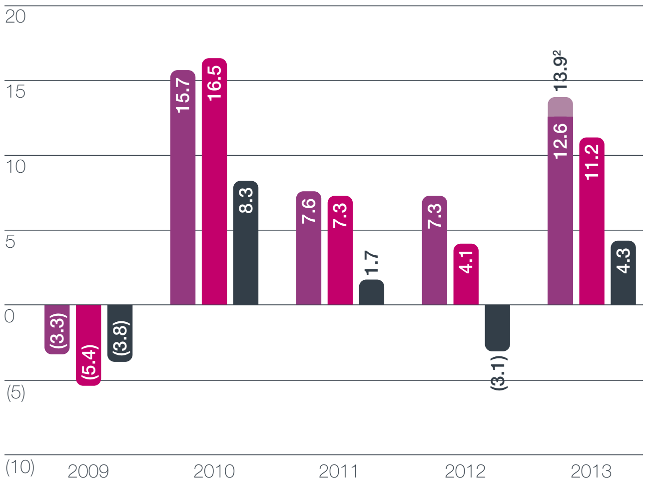


Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance £m	Occupied floor area '000 sq ft	Available floor area '000 sq ft	Minor refurbishment floor area '000 sq ft	Project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central	2,076.5	62	10.7	197.4	2,762	14	13	121	2,910
Borders	303.0	9	11.7	31.8	557	3	9	–	569
	2,379.5	71	10.8	229.2	3,319	17	22	121	3,479
City									
Borders	879.9	26	20.3	123.0	1,541	21	29	309	1,900
Central London	3,259.4	97	13.0	352.2	4,860	38	51	430	5,379
Provincial	93.7	3	0.3	0.3	325	–	–	–	325
Total portfolio 2013	**3,353.1**	**100**	**12.6**	**352.5**	**5,185**	**38**	**51**	**430**	**5,704**
2012	2,859.6	100	7.3	183.3	4,729	66	336	314	5,445

[1] Properties held throughout the year

Valuation performance %



■ Derwent London
■ IPD Central London Offices[1]
■ IPD All UK Property[1]

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

In total, these nine assets were valued at £588.6m at 31 December 2013 and delivered a strong 25.1% increase in value as development surpluses were recognised. Excluding these projects, the underlying performance was 10.1%.

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

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

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

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

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

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

INVESTMENT ACTIVITY

We have acquired three well-located and large-sized blocks in off-market transactions, which offer significant scope for regeneration.

DAVID SILVERMAN
EXECUTIVE DIRECTOR

£130.2m
of acquisitions

£53.5m
profit on disposal

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

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

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

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

Acquisitions – acquiring properties and unlocking their value

	Area	Total cost		Net yield	Rental income	Rent	Lease length[1]
	sq ft	£m	£ per sq ft	%	£m pa	£ per sq ft /per m[2]	Years
Mark Square House EC2	61,700	29.6	479	5.1	1.5	24.25/261	4.0
19 Charterhouse Street EC1[2]	63,700	41.3	648	4.1	1.7	26.50/285	6.1
22 Kingsway WC2	91,400	59.3	649	5.1	3.0	32.80/353	7.3
Total[3]	**216,800**	**130.2**	**601**	**4.8**	**6.2**	**28.53/307**	**6.2**

[1] To first break or expiry, as at 31 December 2013
[2] Includes rent top-up of £0.3m pa (£0.4m in total)
[3] Excludes £0.5m reduction in acquisition cost of 25 & 29 Berners Street, purchased in 2012

Disposals – recycling capital

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

[1] Our share
[2] Excludes proceeds of £1.7m from minor disposals

It is worth noting that none of these acquisitions currently has ground floor retail. This provides a potential opportunity as they are all located in prominent positions in improving areas.

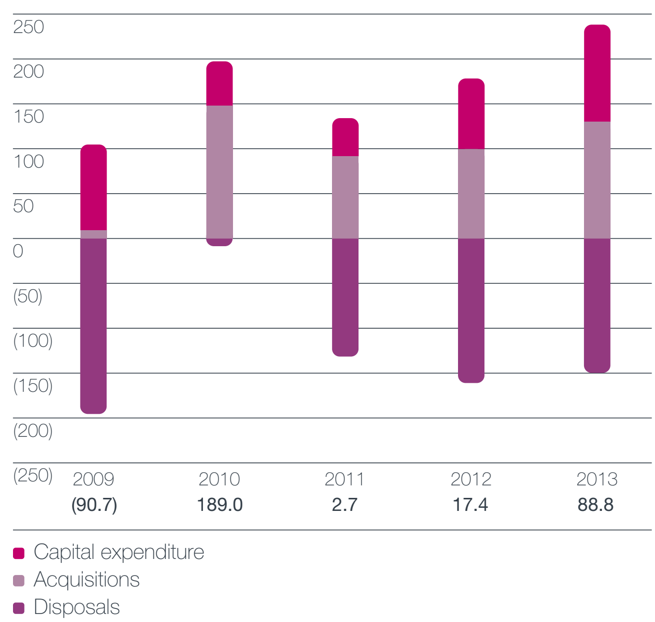
Last year our disposal activity was dominated by the £131.4m sale in July of our interest in 1-5 Grosvenor Place SW1 to Peninsula Hotels. Although this prime island site represented a major potential development opportunity, we believe that the consideration secured most of the anticipated redevelopment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

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

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

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

Net investment £m



PORTFOLIO MANAGEMENT

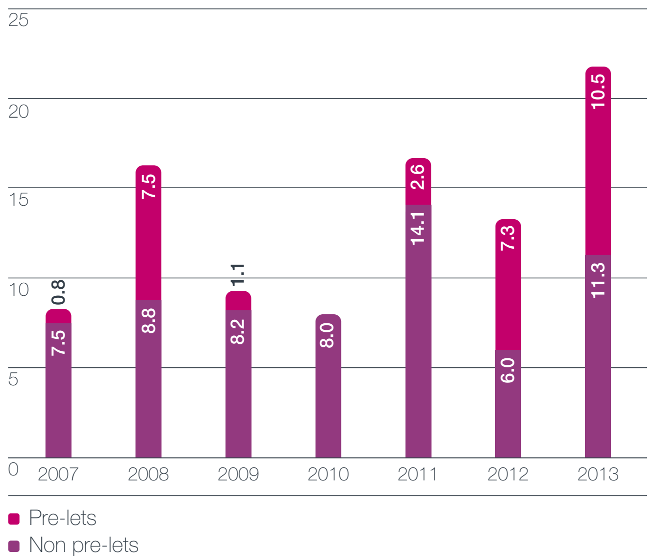
Last year was an exceptional one for our letting activity, demonstrating the attractions of our brand of office space and improving levels of business confidence.

PAUL WILLIAMS
EXECUTIVE DIRECTOR

2013 set a record for pre-lettings, and, as a result, we have very little space currently available. In total we let 643,200 sq ft (59,750m²) during the year achieving a gross annual rent of £21.8m pa, before deduction of £1.0m pa ground rent, and at an average rent 8.4% above December 2012 ERV. At 31 December 2012 this space generated rental income of £3.9m pa. Open market transactions represented 97% of the total by income and were secured 10.9% above December 2012 ERV.

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

Letting activity by rental income £m pa



Rental value growth[1] %

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

Rental income profile

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

Principal lettings in 2013

	Tenant	Area sq ft (m²)	Rent £ per sq ft (£ per m²)	Total annual rent £m	Minimum uplift at 1st review £ per sq ft (£ per m²)	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
132-142 Hampstead Road NW1	UCL	217,000 (20,160)	7.15 (77)	1.6	8.25 (89)	10	5	15
Greencoat House SW1	VCCP	10,600 (980)	47.50 (511)	0.5	–	7	4 / 4 / 0 3 units	15
Q2								
40 Chancery Lane WC2[1]	Publicis Groupe	97,400 (9,050)	65.00[2] (700)	5.7 (gross)	67.50[1] (727)	20	18	32
Turnmill EC1[1]	Publicis Groupe	58,200 (5,410)	55.00 (592)	3.1	57.50 (619)	20	18	32
The Buckley Building EC1	Hill+Knowlton (WPP)	26,400 (2,450)	52.50[3] (565)	1.3	–	15	12	24
Charlotte Building W1	CHI&Partners	12,400 (1,150)	60.00 (646)	0.7	–	5	–	12
Q3								
The Buckley Building EC1	Tipp24	16,100 (1,500)	52.50 (565)	0.8	55.00 (592)	15	12	20
Charlotte Building W1	Turley Associates	7,200 (670)	65.00 (700)	0.5	–	12	–	26
Q4								
The Buckley Building EC1	Deloitte Digital	16,600 (1,540)	57.50 (619)	1.0	59.50 (640)	15	6	7, plus 10 if no break
1 Oliver's Yard EC2	Morningstar	13,100 (1,220)	42.50 (457)	0.6	45.00 (484)	7	4	9
4 Hardwick Street EC1	Ve Interactive	12,000 (1,110)	45.00 (484)	0.5	47.50 (511)	10	–	12
Tower House WC2	Global Personals	4,200 (390)	70.00 (753)	0.3	72.50 (780)	12	6	9, plus 6 if no break

[1] Pre-let. Leases commence on completion of construction (due Q3 2014 for Turnmill and Q4 2014 for 40 Chancery Lane)
[2] Typical floor
[3] Top floor

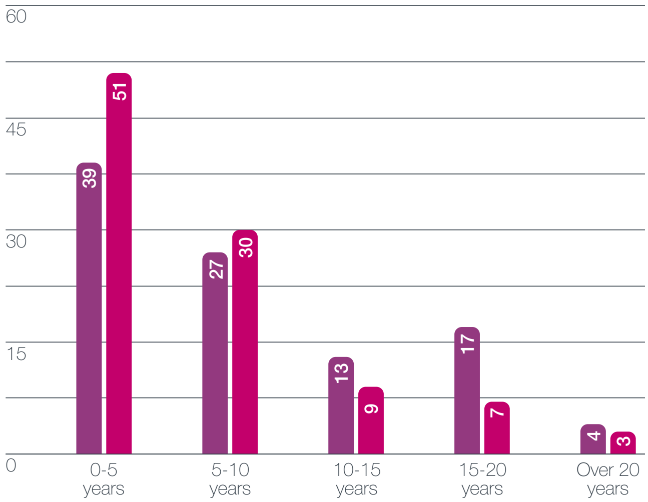
PORTFOLIO MANAGEMENT
CONTINUED

Portfolio statistics – rental income

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

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

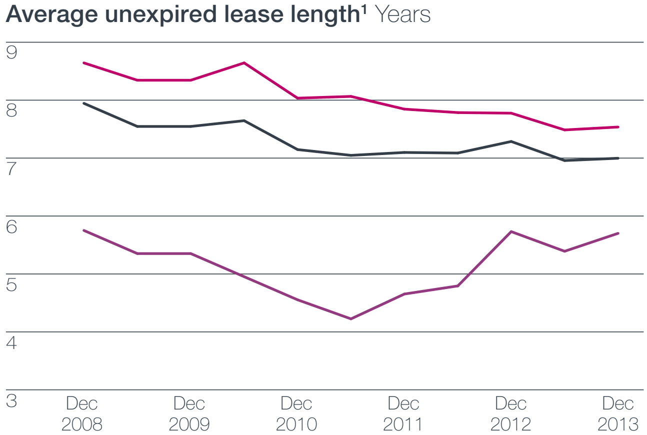
Profile of rental income expiry[1] %



- No lease breaks exercised
- Lease breaks exercised at first opportunity

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

Average unexpired lease length[1] Years



— West End — Central London
— City borders

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

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

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

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

"We've delivered on our ambition to create a new home for the agency that is at once progressive, egalitarian and transparent and, at the same time, a beautiful and inspiring space."

RICHARD MILLAR, CEO
HILL+KNOWLTON STRATEGIES

"As one of the fastest growing technology companies in the UK, we recognise the importance of a great working environment and location to help attract and retain talent. Derwent London's newly refurbished offices at Tower House have given us the canvas to create an attractive new home amidst the buzz in the heart of Covent Garden."

ROSS WILLIAMS, FOUNDER AND CEO
GLOBALPERSONALS.CO.UK

"As an expanding business, we had outgrown our existing space at 25 Savile Row. Derwent London worked closely with us to find us a new, larger home north of Oxford Street. We are very happy to retain Derwent as a landlord and the Charlotte Building provides us with convenient and flexible space to accommodate the business as it continues to grow."

PAUL DEEHAN, DIRECTOR: FINANCE & RESOURCES
TURLEY ASSOCIATES

"Deloitte Digital is an innovative leader in online and mobile strategy, design and development. With a team blending creative, technology and business skills, we need an iconic environment to deliver our distinctive client collaboration experience and a technology studio designed for our agile development approach. Our new space in The Buckley Building ideally fulfils that role."

KEVIN WALSH, PARTNER
DELOITTE DIGITAL

CAPITALISING ON OUR CLOSE TENANT RELATIONSHIPS

As recent activity at our Charlotte Building in Gresse Street, just north of Oxford Street, demonstrates, maintaining good, close relationships with our tenants directly benefits our business.

BRINGING ABOUT A STEP CHANGE

We let Charlotte Building in late 2009 in the aftermath of the financial crisis, with tenants paying around £40-£45 per sq ft, well below the level of rents that could be achieved on this space today. Over the last 18 months we have capitalised on a series of opportunities to bring about a step change in rental levels, at the same time extending lease lengths and eliminating the 2014 breaks.

MAKING THE RIGHT MOVES

We learnt that LinkedIn wanted to move out of their first floor space at Charlotte Building as part of an office rationalisation. We agreed an early surrender, and re-let this 7,400 sq ft first floor to advertising agency CHI&Partners at £60 per sq ft. CHI also pre-let 5,000 sq ft of ground floor space at Charlotte Building occupied by BrandOpus, again paying a rent of £60 per sq ft. BrandOpus is a rapidly expanding design agency which is moving to 18,300 sq ft of newly refurbished space at our 1-2 Stephen Street complex next door.

On the fifth floor at Charlotte Building, Unanimis agreed a lease surrender. We immediately re-let this space to another existing Derwent tenant, Turley Associates, which was expanding out of 25 Savile Row. They are now paying £65 per sq ft.

FORWARD THINKING ASSET MANAGEMENT

Maintaining a regular dialogue with our tenants has allowed us to capitalise on asset management opportunities. We have moved rents forward at the Charlotte Building from the mid £40s to the early to mid £60s, extending lease lengths and accommodating expanding tenants in the process. These set helpful precedents for the 2014 rent reviews on the remainder of the building, as well as having an immediate benefit to capital values.

SIMON TAYLOR
HEAD OF ASSET MANAGEMENT

PORTFOLIO MANAGEMENT
CONTINUED

Five-year vacancy trend %

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

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

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

SHOWCASING THE WORKPLACE CAMPUS OF THE FUTURE

To showcase and test the planned design of the White Collar Factory's main building and its innovative technology, we built a 3,000 sq ft fully functioning prototype suite.

LEADING DESIGN

As well as putting all the equipment through its paces this enabled us over the past year to educate a wide audience about the five principles underpinning the design of the White Collar Factory. These are:

- concrete core cooling
- high ceilings of 3.5m
- windows that open
- flexible occupation
- stays cool, stays warm

ENCOURAGING INTEREST

Throughout the past year, we not only held presentations with agents and potential tenants at the prototype, but also arranged 30 events to welcome a number of other stakeholders.

GAINING RECOGNITION

We estimate that well over 1,000 people visited the prototype during its year on show. The concept gained a wide range of coverage in both the traditional press and on social media sites. Also, the 10m beachball that we placed on the roof of Transworld House became a fondly regarded artistic landmark.

Now that the prototype is being dismantled, the marketing campaign is moving from education about the principles of the White Collar Factory into its next phase of highlighting the location around the campus.

THE NEIGHBOURHOOD

We are setting up a new marketing suite across the road in 1 Oliver's Yard, overlooking the site, where we can showcase the campus' Old Street roundabout location. The charm of the area is its buzz and atmosphere, not manufactured by property developers or government regeneration schemes; it has an established village vibe of creative, entrepreneurial companies. Old Street is already well connected to both the West End and the City. White Collar Factory is sited directly on Old Street stations and communications will get even better when Crossrail arrives with an entrance less than 10 minutes' walk away at Moorgate station.

LOOKING TO THE FUTURE

As we have demonstrated through our prototype and our ongoing marketing, the White Collar Factory campus will provide exactly the sort of collegiate 'long life, loose fit' space that will appeal to a variety of forward-looking businesses.

CELINE THOMPSON
HEAD OF LEASING

PROJECTS

Development is central to the way we add value through planning, winning space and regeneration.

SIMON SILVER
EXECUTIVE DIRECTOR

25.1%
increase in value of development properties

586,000 sq ft
of major projects currently on site

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

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

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

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

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

PROJECTS
CONTINUED

Major project pipeline

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

[1] Proposed area
[2] Crossrail option site

Our six current projects divide into three groups:

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

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

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

Residential projects
The final category is represented by two residential projects. Queens is in Westbourne Grove, Paddington W2 and comprises 16 private flats and 2,700 sq ft (250m^2) retail. 73 Charlotte Street W1 is in Fitzrovia and includes nine private flats, two affordable flats and 1,900 sq ft (180m^2) offices. The additional capital expenditure to complete these two projects is estimated at £19m and we intend to sell the flats on completion in Q4 2014 and Q3 2015, respectively.

Smaller projects

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

Completions and capital expenditure

Construction costs

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

GETTING THE BEST OUT OF OUR CONTRACTORS

BUILDING STRONG RELATIONSHIPS

As the central London construction market continues to get busier, it is more essential than ever for us to have strong relationships across our supply chain in order to roll out our development pipeline successfully.

Over a number of years we have developed good relationships with a range of contractors. We have a reputation for financial soundness, prompt payment and integrity, making us an attractive customer.

PROVIDING THE NECESSARY SKILLS

We now have a selection of preferred suppliers across a range of project types and styles. This includes, for example, suppliers who have the necessary skills to complete our projects of over 200,000 sq ft, which we are due to start on site over the next five years: the White Collar Factory (on site), 80 Charlotte Street (2015), 55-65 North Wharf Road (2016) and 1 Oxford Street (2018).

UNDERSTANDING THE IMPLICATIONS

Our quantity surveyors help us determine a fair price for each element of a project. Based on their extensive database of construction costs in central London, we can understand in detail what the cost implications of specific design decisions will be. We can look at the cost versus value of each design option in isolation, enabling us, for example, to judge the merits of adding an extra floor or rationalising the common parts to improve net to gross ratio.

TRANSFERRING RISK

Once we have the right design and the right contractor in place, we look to lock in the appropriate level of risk. This will vary from project to project. For example, the appropriate level of risk to transfer to the contractor for ground conditions would differ depending on whether or not we had a geophysical survey.

WORKING CLOSELY

As well as developing close relationships with main contractors, we also get to know their preferred subcontractors, as their performance can be crucial to the successful conclusion of a project. We organise regular roundtables with subcontractors to iron out any issues they may have at as early a stage as possible.

NEGOTIATING GOOD AGREEMENTS

We have recently signed the construction contract for the White Collar Factory with Brookfield Multiplex. They constructed the prototype 'live suite' and will be using the same team on the main construction. We have negotiated a guaranteed maximum price for the scheme without entering into a full tendering process, both cost and time efficient.

RICHARD BALDWIN
HEAD OF DEVELOPMENT

PROJECTS
CONTINUED

Project summary 2014-2016

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Capital expenditure to complete[1]	Delivery date	Current office ERV £ per sq ft
On-site projects[3]						
Turnmill EC1	–	41	70	12	Q3 2014	55.00
40 Chancery Lane WC2	–	61	102	24	Q4 2014	65.00
Queens W2	–	–	21	9	Q4 2014	Residential
73 Charlotte Street W1	–	13	16	10	Q3 2015	Residential
White Collar Factory EC1	–	124	293	121	Q3 2016	c.50.00
1-2 Stephen Street W1	–	82[2]	84	9	Q2 2014	c.62.50
	–	321	586	185		
2014 – Consented						
Tottenham Court Walk W1	0.7	24	40	12	Q2 2015	Retail
	0.7	24	40	12		
2015/2016 – Consented						
80 Charlotte Street W1	1.9	234	380	150	H2 2017	c.65.00
55-65 North Wharf Road W2	1.3	78	240	110	2018	c.57.50
	3.2	312	620	260		
Planning and design				16		
Other				87		
Capitalised interest				35		
Total (2014-2016)	**3.9**	**657**	**1,246**	**595**		

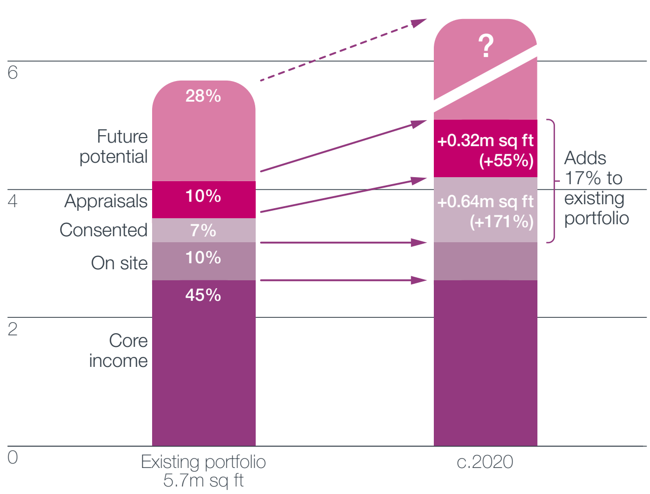
[1] Excluding projects that commence in 2016 and beyond (as at December 2013)
[2] Includes redundant storage space – now offices
[3] Fixed price contracts

Project summary 2015 onwards

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

Future developments
Beyond the current year we are well set to start one major project in both 2015 and 2016. Together 80 Charlotte Street W1 and 55-65 North Wharf Road W2 represent 620,000 sq ft (57,600m²) of development, could produce c.£34m of rent pa, and are expected to require c.£260m of future capital expenditure. In addition we are working on a number of new projects where leases expire in the next few years. These include 9 Prescot Street E1, 25 & 29 Berners Street W1 and Monmouth House EC1 which together could represent another c.290,000 sq ft (26,900m²) of development activity starting in the same time frame.

Development potential million sq ft



"For a long time there was a correlation between the patterns of work and the shape of the building. What's happening now is that patterns of work are changing faster than the shape of the buildings."

FRANK DUFFY
URBAN OMNIBUS 'A WALK WITH FRANK DUFFY'

£280m
of estimated capital expenditure for the next two years

1.0m sq ft
of projects with planning permission

0.9m sq ft
under active appraisal

DEVELOPMENT PIPELINE

Derwent London has an extensive development pipeline totalling 2.5m sq ft (230,000m^2). We are on site with 586,000 sq ft (54,450m^2) of projects and have prepared the way for a significant project to start in each of 2015 and 2016.

40 CHANCERY LANE WC2

Village: Holborn
Type: Offices/Retail
Proposed size: 101,800 sq ft (9,460m²)
Completion date: Q4 2014
Architect: Bennetts Associates
Capital expenditure to complete: £24m

This new-build office and retail development will provide eight floors of high quality offices, a retail unit and a publicly accessible passageway to a new courtyard that brings daylight to the office floors. The office element, totalling 97,400 sq ft (9,050m²), was pre-let to Publicis Groupe in June 2013.

1-2 STEPHEN STREET W1

Village: Fitzrovia
Type: Offices
Scheme size: 102,100 sq ft (9,490m²)
Completion date: 2013/2014
Architect: ORMS
Letting status: 21% pre-let
Capital expenditure to complete: £9m

The transformation of this property is progressing well. We recently completed the new office entrance, together with the first 18,300 sq ft (1,700m²) of refurbished ground and first floor office space. The regeneration of another 83,800 sq ft (7,790m²) of offices will be completed in Q2 2014.

TURNMILL EC1

Village: Clerkenwell
Type: Offices/Retail
Proposed size: 70,500 sq ft (6,550m²)
Completion date: Q3 2014
Architect: Piercy & Co
Capital expenditure to complete: £12m

This new development will occupy a prominent corner site near to Farringdon station, which is currently being redeveloped as a Crossrail interchange. All of the office element of 58,200 sq ft (5,410m²), together with that of 40 Chancery Lane, was pre-let to Publicis Groupe in June 2013.

QUEENS W2

Village: Paddington
Type: Residential/Retail
Proposed size: 21,400 sq ft (1,990m²)
Completion date: Q4 2014
Architect: Stiff + Trevillion
Capital expenditure to complete: £9m

This prominent site, home of the former Queens cinema, is situated on the corner of Bishop's Bridge Road and Queensway. The scheme retains the art deco façade and will create 16 high-quality apartments and 2,700 sq ft (250m²) of ground floor retail space. It will also provide a new public space on the opposite side of Queensway.

73 CHARLOTTE STREET W1

Village: Fitzrovia
Type: Residential/Offices
Proposed size: 15,500 sq ft (1,440m²)
Completion date: Q3 2015
Architect: DSDHA
Capital expenditure to complete: £10m

We recently started work on site at 73 Charlotte Street to create 11 residential units, two of which are affordable, and 1,900 sq ft (180m²) of offices.

TOTTENHAM COURT WALK W1

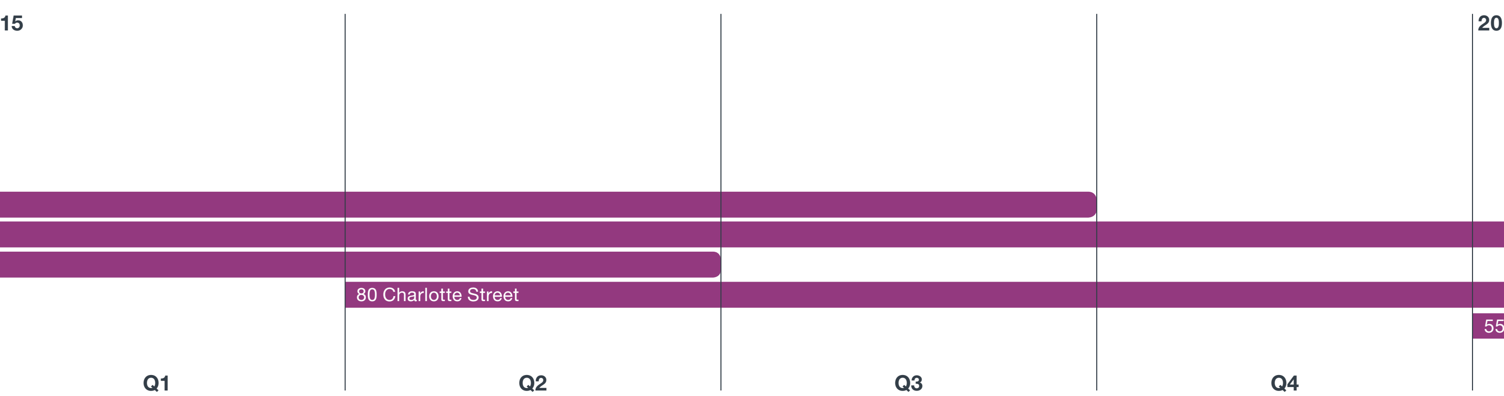
Village: Fitzrovia
Type: Retail
Scheme size: 40,000 sq ft (3,720m²)
Completion date: Q2 2015
Architect: ORMS
Capital expenditure: £12m

In Q2 2014 we will start work on site to extend the retail units at 18-30 Tottenham Court Road, to create a new and improved double-height frontage for the existing colonnade and to convert basement car parking to retail.

WHITE COLLAR FACTORY, OLD STREET EC1

Village: Old Street
Type: Offices/Residential/Retail
Proposed size: 293,000 sq ft (27,220m²)
Completion date: Q3 2016
Architect: AHMM
Capital expenditure to complete: £121m

This scheme, facing onto the Old Street roundabout, includes a 16-storey office building incorporating our White Collar Factory concept. This will include high ceilings, good daylight and natural ventilation with opening windows that negate the need for full air-conditioning. This leads to lower building and fit-out costs as well as lower running costs and a healthier working environment. Work started on site at the beginning of 2014.



80 CHARLOTTE STREET W1

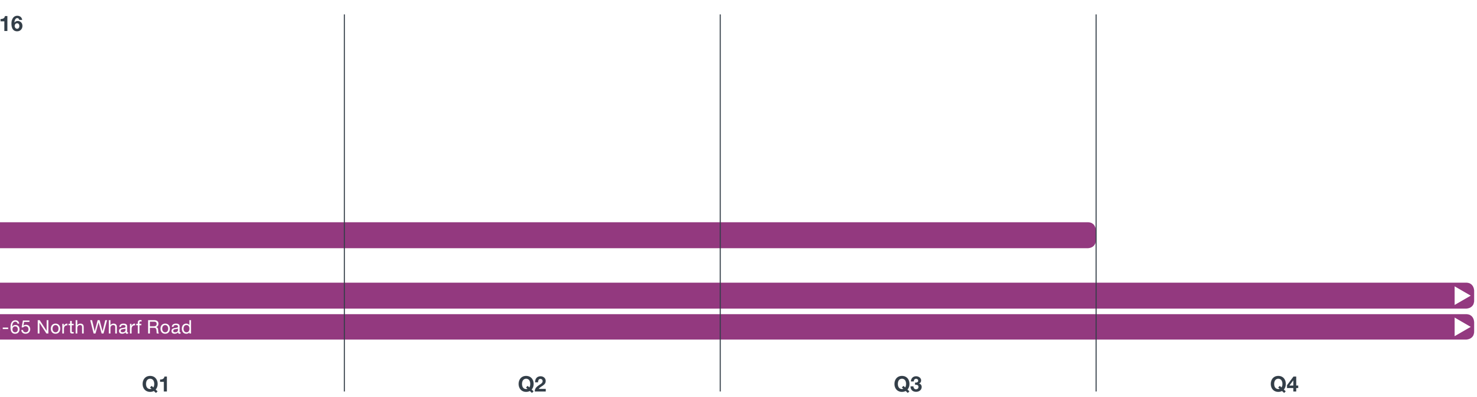
Village: Fitzrovia
Type: Offices/Residential/Retail
Proposed size: 380,000 sq ft (35,300m²)
Completion date: H2 2017
Architect: Make
Capital expenditure: £150m

The regeneration of 80 Charlotte Street will be Derwent London's largest scheme to date. The main development occupies a 1.4 acre island site in the heart of our Fitzrovia estate and will provide 322,000 sq ft (29,900m²) of offices and 44,000 sq ft (4,100m²) of residential units as well as retail space of 14,000 sq ft (1,300m²).

55-65 NORTH WHARF ROAD W2

Village: Paddington
Type: Offices
Proposed size: 240,000 sq ft (22,300m²)
Completion date: 2018
Architect: Fletcher Priest
Capital expenditure: £110m

Early in 2013, Derwent London secured an option to regear the leasehold structure at this site, thereby unlocking the development of consented offices. We are now finalising the detailed design with a view to gaining vacant possession from mid-2015. This is a prime location adjacent to Paddington station where a Crossrail interchange will join the existing main line and underground links in 2018.



SUSTAINABILITY

PAUL WILLIAMS
EXECUTIVE DIRECTOR

2013 has seen us achieve a great deal and I am pleased to say that sustainability has been drawn even closer to the core of our business.

We have continued to challenge ourselves by introducing our toughest and most focused set of performance targets to date. Our performance against these has been excellent, clearly reflecting the level of hard work and commitment from our teams.

This strong performance has been reflected externally with a number of awards. Our Green Star status in the Global Real Estate Sustainability Benchmark (GRESB) was reconfirmed with top quartile performances in nearly all sectors. For the first time we are now listed in the CDP Climate Disclosure Leadership Index and have increased our rating score by 11 points from 78 to 89.

The quality of our reporting has also attracted praise with both our 2012 Report and Accounts and Sustainability Report receiving gold awards in the EPRA Reporting Awards – a first for the Company.

Also work has commenced on our latest low carbon development the White Collar Factory at Old Street EC1. This project will see us champion the next generation of office space that is resource efficient, flexible, and adaptable to user needs.

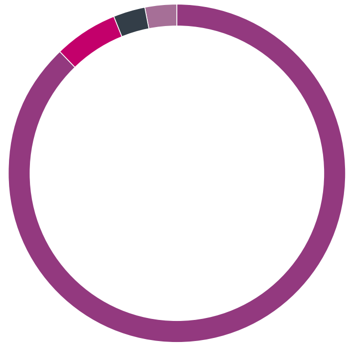
I hope the summary in the following pages gives you a sense of our achievements, and the significant steps we have taken.

Our performance

The suite of targets we developed for 2013 were our most comprehensive to date, and presented us with some positive challenges. A refinement of our 2012 targets, they were designed to maintain good levels of momentum across our business functions whilst introducing new aspects that we felt were important to explore and measure.

Our 2013 targets focused across the key business functions, namely corporate, development, asset/building management and leasing. This provided greater clarity and ownership for our teams and enabled easier performance monitoring via our new sustainability dashboard. The dashboard has been developed as a reporting tool for both our Executive and Sustainability Committees to monitor performance and intervene where required.

For 2013 94% of our targets either were achieved or partially achieved (2012: 83%).



Achieved	88%
Partially achieved	6%
Not achieved	3%
Not applicable	3%

2013 performance highlights

7%
reduction in our GHG emissions across our like-for-like portfolio

2%
increase in our recycling rate across our whole managed portfolio

£70,000
awarded to projects in year one of the Fitzrovia Community Investment Fund

£5,474,381
community contributions via planning

Outstanding
BREEAM rating for rooftop scheme at Morelands Buildings EC1

JOHN DAVIES
HEAD OF SUSTAINABILITY

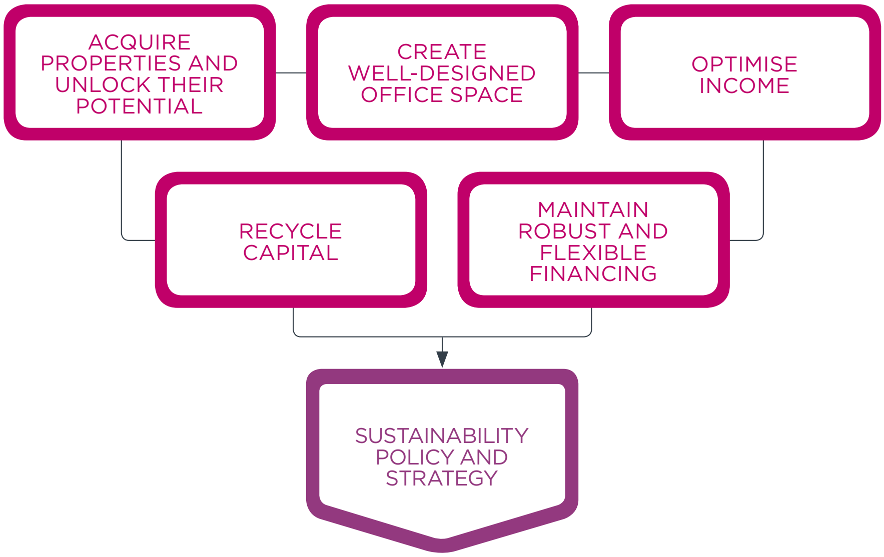
We have made great progress in refreshing our approach to sustainability. As part of this process, we have put in place a number of key tools and mechanisms, which will allow us to operate more efficiently and enable us to improve our performance.

Our new approach is encapsulated in our revised policy and strategy, which can be found at www.derwentlondon.com/sustainability. These documents set out what sustainability means to our business, what is important to us and our stakeholders and what our strategic priorities are going forward. Moreover, they will be used to help us define and focus on stretching performance criteria in areas that are most relevant to our business performance.

Our Fitzrovia Community Investment Fund, the initiative we launched last year to strengthen our community engagement work, has now completed its first year with £70,000 awarded to five local organisations/projects. Some of these projects have already delivered some major improvements to the local area. Year two of the fund was launched at the beginning of 2014 with £70,000 again being made available for initiatives in the local area.

To complement this summary our comprehensive annual sustainability report, which can be found at www.derwentlondon.com/sustainability, sets out the detail behind our work and achievements, together with our datasets and measurement indicators.

Sustainability embedded in our business model



Employees

The continued success of the business would not be possible without our employees. We have a team of just over 100 people from different backgrounds and cultures who are experts in their chosen fields. We provide an environment with a real sense of teamwork and passion throughout the business with a strong collaborative approach. As a result we have a low staff turnover of 7%.

To maintain their high level of expertise and to perform in their roles most efficiently, we provide relevant training via a number of internal and external initiatives including technical knowledge share workshops led by department heads. We encourage our employees to get involved in our community engagement activities and in 2013 we introduced a more formal volunteering programme.

Our policy on gender diversity is contained within the Directors' report on pages 78 and 79 and the split of employees and the Board by gender at the end of 2013 was as follows:

	Female	Male
Employees (incl. Directors)	47	66
Senior management, other than Directors	3	10
Directors	1	12

This report does not contain information about any policies of the Company in relation to human rights issues since it is not considered necessary for an understanding of the Group's business activities. However, the Group monitors its supply chain to consider the impact of its activities on human rights, in particular staff welfare standards. For example, we recently reviewed pay structures with our operational supply chain to ensure that all full time staff members working in our buildings received at least the London Living Wage.

Our refreshed approach
In our 2012 report, we committed to undertake a comprehensive review of our approach to sustainability to redefine our vision and strategy, and draw sustainability further into our business. We have looked at our internal controls, processes and aspirations and combined this with a review of external best practice. Furthermore, we analysed our stakeholder needs in detail to form the basis from which to refresh our approach.

The revised policy is woven into the business model's five core strands.

We have developed four strategic priorities, which are fundamental to our business and to the needs of our stakeholders. Strategic priorities are:

Designing and delivering buildings responsibly: providing inherently sustainable spaces, which reduce carbon emissions and running costs, let well, and achieve better long-term values.

Managing our assets responsibly: undertaking rigorous management to maximise our asset performance, deliver resource efficiency savings, and enable our customers to operate their spaces efficiently.

Creating value in the community: supporting the communities in which we operate to enable measurable value creation and develop and maintain strong relationships.

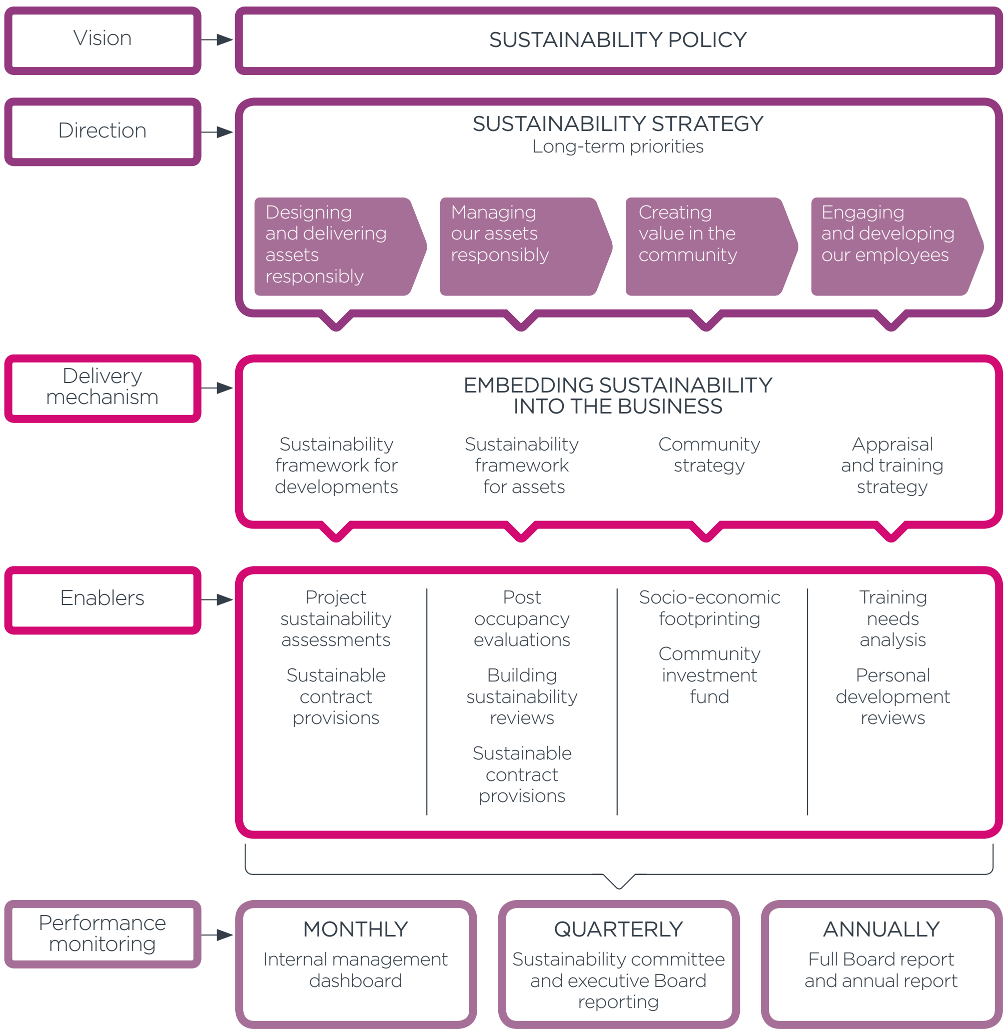
Engaging and developing our employees: creating the right environment for our employees by encouraging opportunities for individuals and teams to realise their full potential, thereby enabling our business to achieve its strategic goals and targets.

We have created a 'sustainability map' which sets out a revised delivery framework and provides us with the right mechanisms and enablers to meet the requirements of our policy and strategy.

Further information on our refreshed approach and the latest versions of our sustainability policy and strategy can be found on our website www.derwentlondon.com/sustainability.

Looking ahead
During 2014 we will be working closely with our internal teams and external supply chains to embed our new priorities and roll out our revised approach. We will be monitoring this approach to ensure it is working effectively and delivering the required outcomes. We look forward to reporting our progress next year.

Our sustainability map



Our 2014 targets

Building on our 2013 performance, we have developed a set of targets for 2014 that we believe will stretch us even further, but will also allow us to develop new initiatives that will have long lasting benefit for our business. We set out below our targets for 2014.

Designing & delivering buildings responsibly

Aspect	Target
Project sustainability plan	All new projects to create and maintain a project sustainability plan
BREEAM/EcoHomes/ Code for sustainable homes	Achieve a minimum of BREEAM Excellent for all new build projects
	Achieve a minimum of BREEAM Very Good for all major refurbishment projects
	Achieve a minimum of EcoHomes Very Good for residential or Code Level 4
Energy & carbon	Minimum of a 'B' rating for new build. Minimum of a 'C' for all major refurbishments
	All new build and refurbishment projects >5,000m^2 100% of meters to be AMR capable and installed
	All new build and major refurbishment projects at RIBA Stage C to undertake an embodied carbon assessment in line with the Derwent London embodied carbon brief for developments
Water	All new build and refurbishment projects >5,000m^2 to be designed to achieve mains water usage of better than 0.50m^3/m^2 or less
Waste	Divert 90% of total construction and demolition waste tonnage from landfill
Materials	All new build and major refurbishment projects to ensure that a minimum of 15% of the total value of materials used contain recycled and/or reused content, measured using the WRAP Net Waste Tool
	100% of timber procured to be from FSC or PEFC sources
Biodiversity	All new build and major refurbishment projects to achieve a net gain in biodiversity as measured through BREEAM or change of ecological value through EcoHomes

Managing our assets responsibly

Aspect	Target
Energy & carbon	Phase 1 AMR metering programme to be complete by mid 2014. Phase 2 – tenant sub-metering engagement programme to begin mid 2014 and uptake to be monitored and reported
	Establish a portfolio energy usage baseline during 2014 from which an appropriate reduction target can be set for 2015 onward
	Each managed property to develop an energy management plan to support the delivery of a portfolio reduction target
	Carry out a post-occupancy energy performance evaluation on all new build and major refurbishment projects once occupied for more than 12 months
	Carry out at least two energy performance evaluations on existing multi-let buildings in the managed portfolio
Waste	Send zero waste to landfill from properties for which Derwent London has waste management control
	Achieve a 60% recycling rate for managed waste in all properties for which Derwent London has control over waste management
Water	Maintain portfolio mains water consumption below 0.50m^3/m^2
	Establish a portfolio usage baseline during 2014 from which appropriate reduction targets can be set for 2015 and beyond
	Each managed property to develop a water management plan to support the delivery of a portfolio reduction target
Biodiversity	Implement the recommendations from the biodiversity action plan on five buildings in the managed portfolio
Customers	Produce at least two editions of the newly proposed tenant sustainability newsletter during 2014
	Review the tenant fit-out sign off and alterations process to introduce robust sustainability sign off procedures
	Develop and deliver one tenant awareness campaign across our managed portfolio

Creating value in the community

Aspect	Target
Community strategy	Investigate and develop an appropriate company-wide community strategy during 2014
Community engagement	Develop and successfully deliver year 2 programme of the Fitzrovia Community Investment fund
Skills	Provide at least two work experience/mentoring placements
Socio-economic assessment	Carry out a socio-economic assessment on all major projects once occupied for more than 12 months to establish net impact/benefit of the development

Engaging & developing our employees

Aspect	Target
Staff volunteering	15% increase in the uptake of the employee volunteering programme
Staff training	Refresh and revamp our annual and mid-year employee performance review process
Knowledge	Undertake three further technical/knowledge share presentations

FINANCE REVIEW

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

DAMIAN WISNIEWSKI
FINANCE DIRECTOR

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

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

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

Net asset value and total return

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

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

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

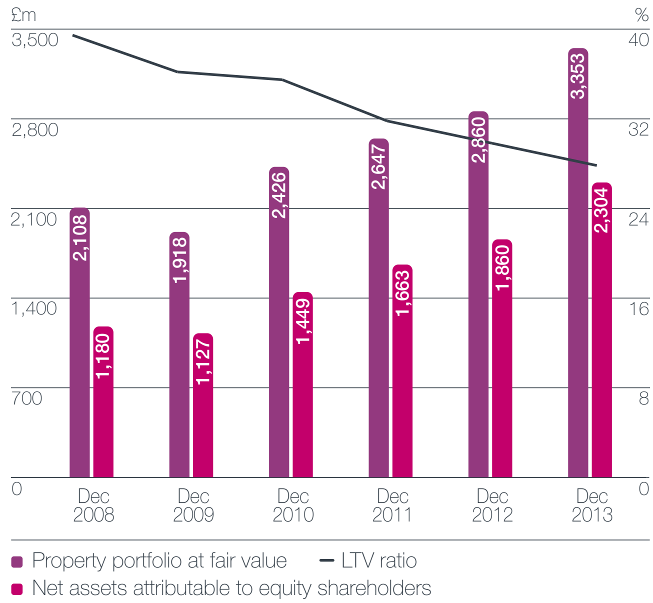
	2013 p	2012 p
Revaluation surplus	**326**	170
Profit on disposals	**52**	7
EPRA profit after tax	**54**	50
Dividends paid (net of scrip)	**(30)**	(30)
Equity portion relating to issue of convertible bonds 2019	**12**	–
Interest rate swap termination costs	**(13)**	(7)
Dilutive effect of convertible bonds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

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

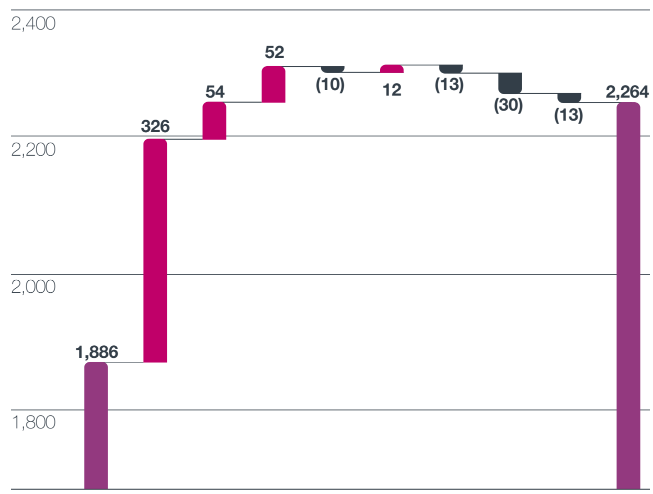
A detailed reconciliation of the Group net asset value to the EPRA NAV is shown in note 17 to the financial statements.

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

Property portfolio value, net assets and gearing



EPRA net asset value per share p



	1 Jan	Revaluation surplus	EPRA EPS	Profit on disposal	Convertible bond 2016 dilution	Convertible bond 2019	Financial derivative termination costs	Dividend	Minority interest/Other	31 Dec
2013	**1,886**	**326**	**54**	**52**	**(10)**	**12**	**(13)**	**(30)**	**(13)**	**2,264**
2012	1,701	170	50	7	–	–	(7)	(30)	(5)	1,886

Income statement

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

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

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

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

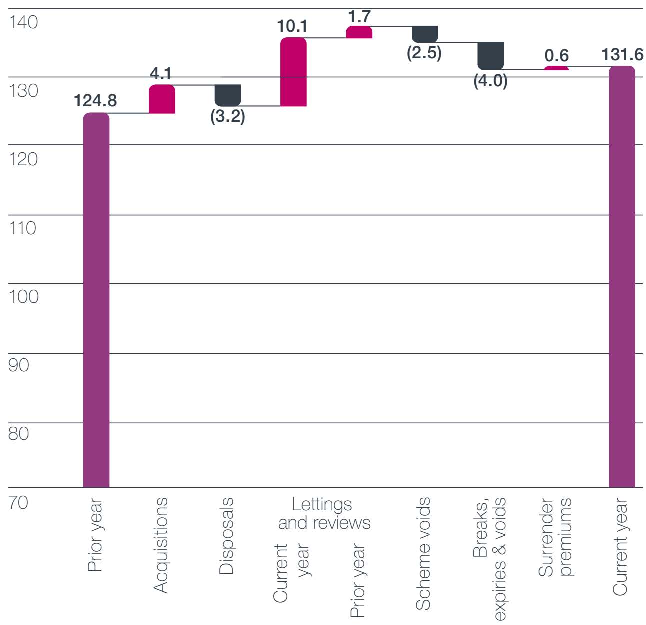
20.0%

increase in EPRA NAV per share

10.1%

increase in EPRA profit before tax

Gross property income £m



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

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

	2013 %	2012 %
EPRA cost ratio, incl. direct vacancy costs	**25.1**	25.2
EPRA cost ratio, excl. direct vacancy costs	**22.6**	21.1
Portfolio cost ratio, incl. direct vacancy costs	**1.0**	1.1

EPRA like-for-like net rental income

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

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

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

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

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

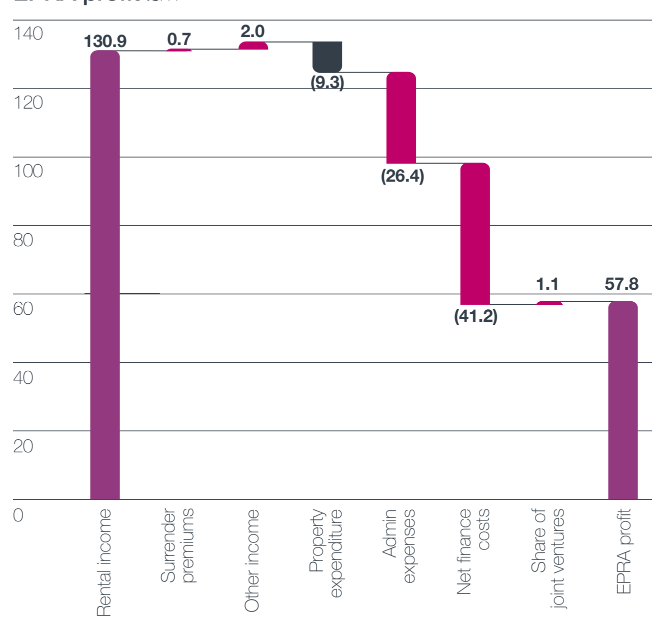
Taxation

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

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

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

EPRA profit £m



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

Debt facilities

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

Maintaining robust financing

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

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

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

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

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

Net debt and cash flow

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

2013 REFINANCING

OUR AIMS FOR 2013 WERE:

- To move towards predominantly unsecured debt:
  - Improves operational flexibility
  - Greater access to capital markets
  - Reduces future transaction costs
- To refinance, taking advantage of market conditions

OUR ACHIEVEMENTS IN 2013:

- £800m of refinancing:
  - All unsecured
  - Reduces average cost of debt
  - Extends average maturity of debt
- Replaced £650m of secured bank facilities

JULY 2013 CONVERTIBLE BONDS

£150m convertible bonds

£33.35 conversion price, 62% above June NAV

6 years longer than average maturity

1.125% coupon rate

SEPTEMBER 2013 BANK FACILITY

£550m unsecured revolving bank facility

1.6% funds drawn at 1.6% margin

5-year term with no amortisation

NOVEMBER 2013 PRIVATE PLACEMENT

£100m unsecured

20 years £75m at 4.68%

15 years £25m at 4.41%

FINANCE REVIEW
CONTINUED

Net debt

	2013 £m	2012 £m
Cash	**(12.5)**	(4.4)
Bank facilities	**385.0**	437.5
Secured loan 2024	**83.0**	83.0
Secured bonds 2026	**175.0**	175.0
Fair value and issue costs	**15.6**	16.4
Unsecured convertible bonds 2016	**175.0**	175.0
Unsecured convertible bonds 2019	**150.0**	–
Issue costs, equity components and unwinding of discounts	**(22.3)**	(10.0)
Leasehold liabilities	**8.2**	8.9
Bank loan arrangement costs	**(7.8)**	(6.6)
Net debt	**949.2**	874.8

Gearing and interest cover ratio

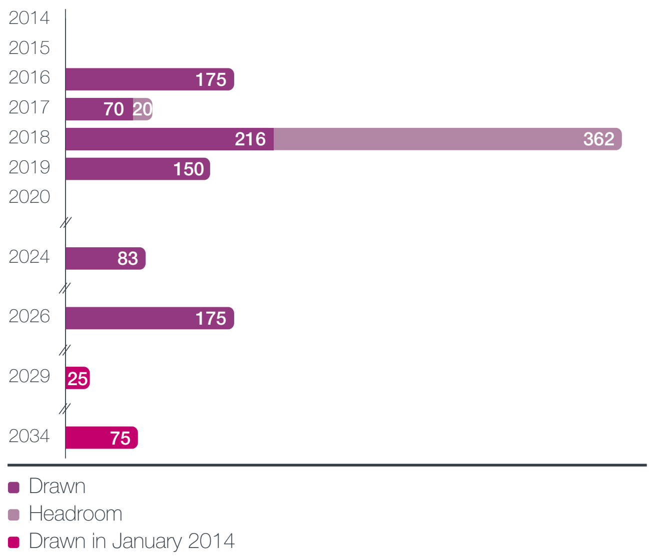
	2013 %	2012 %
Loan-to-value ratio	**28.0**	30.0
NAV gearing	**40.0**	45.6
Interest cover ratio (gross)	**363**	351
Interest cover ratio (net)	**279**	263

Debt summary

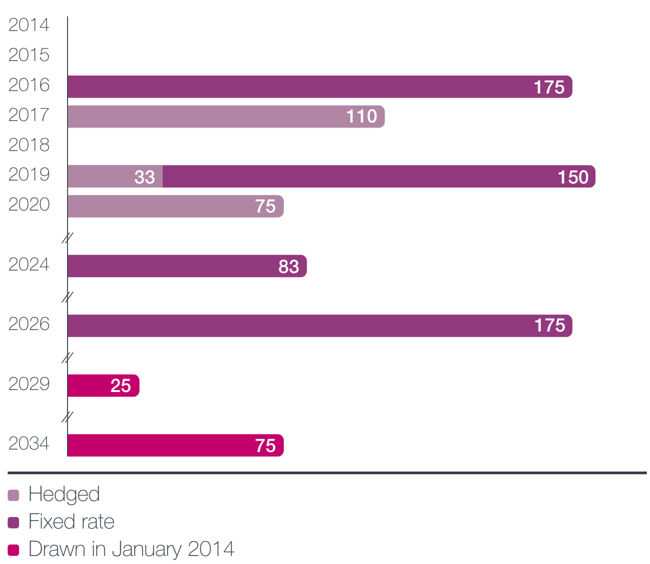
	Proforma[1] £m	2013 £m	2012 £m
Bank loans			
Floating rate	**68.0**	**167.0**	69.5
Swapped	**218.0**	**218.0**	368.0
	286.0	**385.0**	437.5
Non-bank debt			
Fixed rate secured loan 2024	**83.0**	**83.0**	83.0
Fixed rate secured bonds 2026	**175.0**	**175.0**	175.0
Fixed rate unsecured bonds 2016	**175.0**	**175.0**	175.0
Fixed rate unsecured bonds 2019	**150.0**	**150.0**	–
Fixed rate unsecured loan 2029	**25.0**	**–**	–
Fixed rate unsecured loan 2034	**75.0**	**–**	–
	683.0	**583.0**	433.0
Total	**969.0**	**968.0**	870.5
Hedging profile (%)			
Fixed	**70**	**60**	50
Swaps	**23**	**23**	42
	93	**83**	92
Percentage of debt that is unsecured	**63%**	**63%**	20%
Percentage of non-bank debt	**70%**	**60%**	50%
Weighted average interest rate (%)[2]	**3.88**	**3.64**	4.63
Weighted average interest rate (%)[3]	**4.34**	**4.10**	4.88
Weighted average maturity of facilities (years)	**6.9**	**5.9**	5.4
Weighted average maturity of borrowings (years)	**7.7**	**6.3**	6.1
Undrawn facilities	**382**	**283**	333
Uncharged properties	**2,144**	**2,144**	624

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

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



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



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

[2] Excludes forward start swaps

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

Dividend

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

Financial prospects

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

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

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

On behalf of the Board.

JOHN D. BURNS
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI
FINANCE DIRECTOR

27 FEBRUARY 2014

GOVERNANCE

BEYOND

BRICKS

AND

MORTAR

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board, I am pleased to present the Group's 2013 Corporate Governance Report.

The Company is subject to the provisions and principles of the UK Corporate Governance Code (the Code) which was introduced by the Financial Reporting Council (FRC) in 2010 and revised in 2012. The Board believes that, in 2013, the Company has complied with the main and supporting principles of the Code except for provision B.1.1. This provision addresses the independence of non-executive Directors and the Company's approach to this matter is discussed on page 78.

The year has seen Corporate Governance remain high on the agenda for the business world both because of the high profile governance failures reported in the media and also because of the number of changes that became effective during 2013. This elevated profile means that both at the Board level and in the everyday operations of the Group, significant time and resource is committed to governance matters – not only to ensure compliance with the framework of regulations but also in order to deliver the sustainable and successful business which Derwent London aims for.

Many of the changes to the governance regulations that became effective this year were announced during 2012 and we complied, as far as possible, with these last year. During the year, the guidance issued by various bodies has clarified the requirements of the changes and in some cases this has led to us refining our disclosure and conduct to ensure compliance. At the same time, some of the measures that we have introduced over the last few years have been augmented as the matters concerned take on increasing importance. I have highlighted a number of these developing areas below.

Risk

As risk management continues to move up the business agenda, the activity of our Risk Committee has become more important and increasingly embedded in the Group's activities. During the year the Committee oversaw the running of an on-line training course to improve staff knowledge of the Bribery Act and its implications. This new piece of wide-ranging legislation has necessitated the introduction of a number of new procedures; the Committee considered this to be an area where more comprehensive education was needed to ensure that staff understood the legislation and appreciated the importance of the additional procedures. The Committee also commissioned external advisers to advise on the Group's risk assessment and risk reporting procedures.

Further details of the work of the Risk Committee are given on page 111 and the Group's risk management processes are detailed on pages 28 to 32.

Sustainability

The new requirement this year to report the Group's greenhouse gas emissions is indicative of the pressure to improve both practices and reporting within the sustainability arena. At the start of the year we recruited a Head of Sustainability, a new role in the Company, to coordinate and improve our performance in this increasingly important area. We were pleased when our efforts were externally recognised with a gold award in the EPRA Sustainability Reporting Awards 2013.

A summary of the Group's sustainability report is given on pages 58 to 61 and the full document is available on the Group's website, www.derwentlondon.com.

Remuneration

Final guidance concerning the regulations of the Department for Business, Innovation and Skills (BIS) was issued by GC100 and Investor Group in September 2013 and our report of the Remuneration Committee is compliant with this guidance.

Whilst adapting to the new requirements and guidance, the Remuneration Committee updated the structure of the Directors' remuneration. This has involved consultation with the Group's major shareholders on the new structure. Details of this, together with information on the other work of the Committee, are set out in the report of the Remuneration Committee on pages 92 to 109.

Audit

The Board has looked for guidance from the Audit Committee on whether the Group's report and accounts are fair, understandable and balanced – a requirement of the Code introduced in 2012. The work that the Committee undertook to advise the Board on this issue is set out in the report of the Audit Committee on pages 113 and 114. This report also provides the background to the audit tendering process which the Committee is conducting and which will be completed in March 2014. Given the length of tenure of BDO, the Committee had been considering tendering the audit for a number of years. With the increased focus on the subject it became convinced that the correct time had now arrived. One of the consequences of the recent EU guidelines on this matter is that our incumbent Auditor, BDO, declined to take part in the tender. On behalf of the Board I would like to thank them for their conscientious work and commitment during their time as our Auditor.

Whilst the other committees come to terms with the new regulations during 2013 the Nominations Committee continued to review the composition of the Board, having particular regard to its diversity, and to manage both the ongoing process of refreshment and the succession of senior management effectively.

As in previous years, I would encourage you to attend the Group's Annual General Meeting on 16 May 2014 and take the opportunity to meet the management team at this important event.

ROBERT A. RAYNE
CHAIRMAN
27 FEBRUARY 2014

Previous pages:
White Collar Factory, Old Street EC1

BOARD OF DIRECTORS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1. ROBERT A. RAYNE, 65
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, 69
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, 52
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, 63
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, 53
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 Waterside Partnership

6. NIGEL Q. GEORGE, 50
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, 44
EXECUTIVE DIRECTOR

Appointed to the Board: 2008
Skills and expertise: David is a chartered surveyor who joined the Company 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. JOHN C. IVEY, 72
FORMER NON-EXECUTIVE DEPUTY CHAIRMAN

Appointed to the Board: 1984
Retired: 31 December 2013
Skills and expertise: A chartered accountant, John was a non-executive Director of RWS Holdings plc until January 2010 and was formerly Chief Executive of Berendsen plc.

9. STUART A. CORBYN, 69
SENIOR INDEPENDENT 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 former president of the British Property Federation.
Other current appointments: Non-executive Chairman of Get London Living and of Pollen Estate Trustee Company
Committees: Nominations (chairman), Audit, Remuneration

10. ROBERT A. FARNES, 68
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2003
Skills and expertise: Robert is a chartered surveyor and was previously the Chairman of CB Hillier Parker.
Committees: Nominations

11. JUNE F. DE MOLLER, 66
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2007
Skills and expertise: June was Managing Director of Carlton Communications Plc and has also served as a non-executive Director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc, Archant Limited and London Merchant Securities plc.
Other current appointments: Non-executive Director of Temple Bar Investment Trust plc.
Committees: Risk (chairman), Remuneration, Nominations

12. STEPHEN G. YOUNG, 58
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2010
Skills and expertise: Stephen is a chartered management accountant. 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: Chief Executive of Meggitt PLC.
Committees: Audit (chairman), Risk, Remuneration

13. SIMON W.D. FRASER, 50
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2012
Skills and expertise: From 1997 to his retirement in 2011, Simon 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 and advised company boards on a range of issues.
Other current appointments: Non-executive Director of Lancashire Holdings Limited.
Committees: Remuneration (chairman), Audit, Nominations

14. RICHARD D.C. DAKIN, 50
NON-EXECUTIVE DIRECTOR

Appointed to the Board: August 2013
Skills and expertise: Richard is an Associate Member of Corporate Treasurers and an Associate of the Chartered Institute of Bankers. He has been employed at Lloyds Bank since 1982 where he has undertaken 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: Managing Director & Head of Corporate Real Estate, Business Support, Lloyds Bank plc
Committees: Audit, Risk

15. TIMOTHY J. KITE
COMPANY SECRETARY

Appointed: 1996
Skills and expertise: Tim is a chartered accountant with a comprehensive knowledge of corporate governance and risk management. His responsibilities include compliance matters.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

Group financial statements
International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

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

The Directors confirm to the best of their knowledge:

- they have complied with the above requirements in preparing the financial statements which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

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

On behalf of the Board.

JOHN D. BURNS,
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI,
FINANCE DIRECTOR

27 FEBRUARY 2014

DIRECTORS' REPORT

TIMOTHY KITE
COMPANY SECRETARY

The Directors present their annual report and audited financial statements for the year ended 31 December 2013.

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 chairman's statement and the strategy report earlier in this report.

The Board
Following the retirement of John Ivey at the end of the year the Board consisted of:

A non-executive Chairman:	Robert Rayne
Six non-executive Directors:	Stuart Corbyn Robert Farnes Stephen Young June de Moller Simon Fraser Richard Dakin
Six executive Directors:	John Burns Simon Silver Damian Wisniewski Nigel George Paul Williams David Silverman

Richard Dakin joined the Board on 1 August 2013.

As noted in the Chairman's letter on corporate governance on page 74, Robert Farnes is not deemed independent under the criteria given in provision B.1.1. of the Code. The Board has therefore specifically considered his independence.

At the year end Robert is not deemed independent having served on the Board for more than nine years. However, the Board does not believe that length of service is necessarily a complete guide to the degree of independence of a Director's state of mind and therefore has reviewed the manner in which he carried out his duties during the year. In the Board's opinion, Robert has continued to demonstrate commitment to his role and to exercise his expertise in an effective and independent manner.

His period of service as a non-executive Director reached nine years on 31 March 2012 and in accordance with best practice, he ceased to be a member of both the Remuneration and Audit Committees on 30 June 2013. He has no association with management that might compromise his independence and is standing for re-election at the Company's Annual General Meeting (AGM) on 16 May 2014.

The process of Board refreshment was continued through 2013 with the appointment of Richard Dakin in August. Richard was the second non-executive Director identified by Spencer Stuart, the independent executive search agency which was appointed in 2011 to assist with the recruitment of two new independent non-executive Directors. Following this appointment, John Ivey retired from the Board at the end of the year.

Whilst the independence issues that were originally identified in 2010 have now been addressed, the Group's Nominations Committee continues to monitor the composition and independence of the Board and has recently started the process of recruiting another non-executive Director.

An important element of assessing the composition of the Board involves considering its diversity, having particular regard to the new requirements concerning gender diversity introduced by the 2012 revision of the Code. The Board's overriding aim is to have a balance of skills, experience, length of service and knowledge of the Group but it recognises the importance of this matter and notes the requests made by Lord Davies of Abersoch through the BIS on the third anniversary of his original report on the subject. Following one of these requests, the Directors aim to appoint at least one additional female Director by 2015. However, the Board does not intend this to suggest that 'positive discrimination' will be exercised in future appointments and would stress that these will continue to be made based purely on merit having given due regard to the benefits of diversity in its widest sense and reflecting the extent to which the applicant can provide the set of required skills identified at the start of the recruitment process.

The Board has also made the Group's senior women aware of a series of external workshops aimed at helping them find and navigate the route to the boardroom.

The Board currently includes one female (8%) and the gender mix throughout the Group is illustrated in the adjacent diagrams.

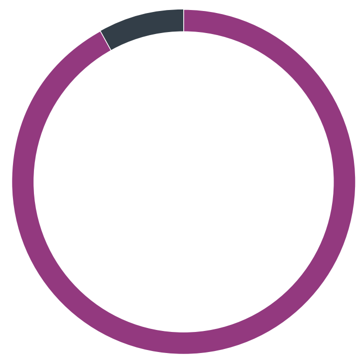
Taking all factors into account the Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to satisfy the requirements of good corporate governance.

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.

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 full Board's approval is maintained and reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2014. Extra meetings will be arranged if necessary. The Executive Committee which consists of the executive Directors plus three 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.

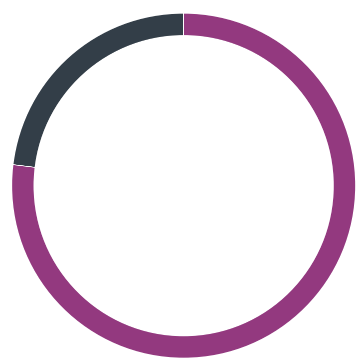
The Board maintains a number of Board committees. The terms of reference of each committee are available on the Group's website. Details of the membership and duties of the four principal committees that operated throughout 2013 are set out overleaf.

Board



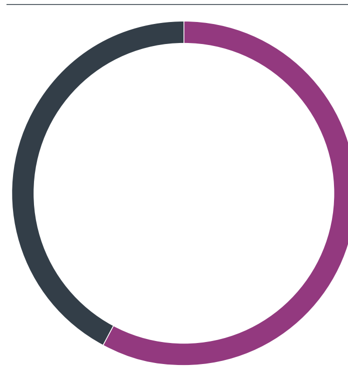
	%
Male	92
Female	8

Senior management (excluding Directors)



	%
Male	77
Female	23

Employees



	%
Male	58
Female	42

Remuneration Committee
At the start of the year, the Remuneration Committee was chaired by June de Moller and served on by Stuart Corbyn, Stephen Young, Simon Fraser and Robert Farnes. As planned, Simon Fraser took over the chairmanship in July 2013 and Robert Farnes left the Committee at the same time. The Committee is responsible for establishing the Group's remuneration policy and individual remuneration packages for the executive Directors. There were three meetings of the Committee in 2013 and the report of its activities is set out on pages 92 to 109.

Audit Committee
This Committee is chaired by Stephen Young and was served throughout the year by Stuart Corbyn, Simon Fraser and June de Moller. Robert Farnes stepped down from the Committee in July 2013 and Richard Dakin joined in August 2013. 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 2013 and the report of the Audit Committee is on pages 113 and 114.

Nominations Committee
At the start of the year, the Nominations Committee consisted of John Ivey, Robert Farnes, June de Moller and Stephen Young and was chaired by Stuart Corbyn. In August, Stephen Young left the Committee and was replaced by Simon Fraser and John Ivey left the Committee when he retired on 31 December 2013. 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 three times during 2013 and the report of the Nominations Committee is on page 110.

Risk Committee
The Risk Committee was established in November 2011. It was chaired by Stephen Young until August 2013 when June de Moller took over the chairmanship. Throughout the year, it was served by John Burns and Damian Wisniewski and Richard Dakin joined the Committee in August 2013. The Committee's main responsibility is to review the effectiveness of the Group's internal control and risk management systems. It met twice during the year and the Committee's report is on page 111.

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

	Full Board	Executive Committee	Remuneration Committee	Audit Committee	Nominations Committee	Risk Committee
Number of meetings	6	11	3	4	3	2
Executive						
J.D. Burns	6	11	–	–	–	2
S.P. Silver	6	9	–	–	–	–
D.M.A. Wisniewski	6	11	–	–	–	2
P.M. Williams	6	11	–	–	–	–
N.Q. George	6	11	–	–	–	–
D.G. Silverman	6	11	–	–	–	–
Non-executive						
R.A. Rayne	6	–	–	–	–	–
J.C. Ivey	6	–	–	–	3	–
R.A. Farnes	6	–	–	2	3	–
S.A. Corbyn	6	–	3	4	3	–
J. de Moller	6	–	3	2	3	2
S.G. Young	6	–	3	3	3	2
S.W.D. Fraser	6	–	3	4	2	–
R.D.C. Dakin (from 1 August 2013)	2	–	–	2	–	1

Performance evaluation
With regard to the requirement of provision B.6.2 of the Code an independent third party was used to facilitate the annual review of the effectiveness of the Board and its Committees this year following an internal assessment in 2012.

The review took the form of a confidential, on-line survey which was completed by all the Directors and the Company Secretary. The survey covered the processes and performance of the Board, the Committees and the Chairman. The performance of individual Directors was assessed by the Remuneration Committee as part of the salary review process.

The facilitator prepared a report for each body. These were then considered by the Chairman and the chairmen of the relevant Committees. As a result of the review, the Board is looking at ways to further increase the opportunities available to the non-executive Directors to contribute to and challenge the strategy of the Group.

As a result of the evaluation, the Board is satisfied that the structure, mix 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 standing for re-election at the AGM continue to be effective and show a high level of commitment to their roles.

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. Last year's review resulted in the Chairman offering to meet a number of major shareholders and this initiative will be repeated in 2014.

Appointment and replacement of Directors
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 Directors shall be not less than two and not more than 15 in number. The shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Other than as required 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 next AGM of the Company 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 any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

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 page 76.

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

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.

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 27 February 2014.

The Directors do not participate in the Executive Share Option Scheme. During the year, a conditional grant of 204,320 shares was made to Directors under the Performance Share Plan (PSP) whilst 232,918 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 44,962 shares of this award made to Directors lapsed.

Other than as disclosed in note 41, 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.

	Ordinary shares of 5p each		Options	
	31 Dec 13	31 Dec 12	**31 Dec 13**	31 Dec 12
R.A. Rayne[1]	**4,409,295**	4,409,295	**66,730**	91,730
J.C. Ivey (retired 31 December 2013)	**–**	79,072	**–**	–
J.D. Burns	**790,272**	760,031	**177,460**	199,543
S.P. Silver	**352,576**	364,939	**152,215**	171,120
N.Q. George	**37,179**	33,846	**92,171**	103,695
P.M. Williams	**39,180**	35,622	**92,171**	103,695
D.G. Silverman	**15,585**	8,879	**83,969**	89,705
D.M.A. Wisniewski	**13,794**	816	**91,185**	100,352
R.A. Farnes	**6,138**	6,838	**–**	–
S.A. Corbyn	**1,000**	1,000	**–**	–
J. de Moller	**2,985**	2,985	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
S.W.D. Fraser	**–**	–	**–**	–
R.D.C. Dakin	**–**	–	**–**	–

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

Risk management and internal control

The principal risks and uncertainties facing the Group in 2014 together with the controls and mitigating factors are set out on pages 28 to 32. The systems that control the risks form the Group's system of internal control. The key elements of the Group's internal control framework 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; and
- a formal whistleblowing policy.

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 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.

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, by giving presentations and organising 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 annual report, which is available to all shareholders, reinforces this communication. 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, provides additional sources of information for shareholders. Websites for specific developments are used to help explain the Group's current activities to shareholders. The AGM provides an opportunity for shareholders to question the Directors and, in particular, the chairman of each Board Committee. An alternative channel of communication to the Board is available through Stuart Corbyn, the Senior Independent Director.

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 performance, business model and strategy.

Share capital

As at 27 February 2014, 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 30 to the financial statements.

Substantial shareholders

In addition to those of the Directors disclosed on page 82, the Company has been notified of the following interests in the issued ordinary share capital as at 27 February 2014.

	Number of shares	Percentage of issued share capital
Ameriprise Financial Inc	5,108,656	4.99
Standard Life Investments	4,284,390	4.18
Withers Trust Corporation Ltd	3,908,012	3.81
Lady Jane Rayne	3,593,838	3.51

Derwent London shares held by the Group

At 31 December 2013 the Group held 33,436 Derwent London shares in order to deliver the deferred bonus shares to the Directors when the deferral period expires. Movements in 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 2012	25,322	0.025		393,757
Acquired on 29 March 2012	30,236	0.029	17.38	525,502
Maximum holding during 2012	55,558	0.054		919,259
Disposed on 2 April 2012	(12,663)	(0.012)	17.31	(219,196)
Holding at 31 December 2012	42,895	0.042		700,063
Acquired on 27 March 2013	18,316	0.018	21.39	391,779
Maximum holding during 2013	61,211	0.060		1,091,842
Disposed on 4 April 2013	(27,775)	(0.027)	21.50	(597,162)
Holding on 31 December 2013	**33,436**	**0.033**		**494,680**

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 shareholder rights, unissued shares are at the disposal of the Board.

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); and
- 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.

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; and
- 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.

Powers in relation to the Company issuing or buying back its own shares
The Directors were granted authority at the last AGM held in 2013 to allot relevant securities up to a nominal amount of £1,699,253. 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 £1,707,960 and (ii) up to a nominal amount of £3,415,919 (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 £256,194. 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 10,247,758 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

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 2013, resulting in a surplus of £352.5m, before accounting adjustments of £15.0m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £3,285.2m. Further details are given in note 18 of the financial statements.

Post balance sheet events
Details of post balance sheet events are given in note 38 of the financial statements.

Our GHG emissions
The new greenhouse gas (GHG) emission reporting regulations (enacted through the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013) now require quoted companies to disclose their annual GHG emissions. In 2012 we adopted these requirements early and we reported our GHG emissions (our carbon footprint) in full across Scopes 1, 2 and 3.

We present opposite our annual GHG emissions profile for 2013 compared to our 2012 baseline, together with a set of intensity ratios appropriate for our business.

With the widening of our carbon reporting by including new aspects such as fugitive emissions and a larger portfolio our carbon footprint has grown this year by 10%. However, we have seen reductions in our overall CO_2e/m^2 intensity of 3% (this excludes Scope 1 fugitive emissions). Please see our 2013 Annual Sustainability Report for further details and analysis.

Our carbon footprint

			2013 tCO_2e	2012 tCO_2e	% change
Scope 1	Energy use	Gas (total building)	3,673	3,526	4.2
		Oil (total building)	64	67	(4.5)
	Travel	Fuel use in Derwent London company cars for business travel	20	16	25.0
	Fugitive emissions	Refrigerant emissions	1,000	–	n/a
Scope 2	Energy use	Electricity – generation (landlord-controlled areas and Derwent London occupied floor area)	6,289	6,220	1.1
Scope 3	Energy use	Electricity – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	993	982	1.1
		Electricity – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	623	615	1.3
		Gas (total building)	561	538	4.3
		Oil (total building)	12	13	(7.7)
	Travel	Fuel use in Derwent London company cars for business travel WTT	4	3	33.3
		Business air travel WTT	3	4	(25.0)
		Business air travel	26	40	(35.0)
	Water	Water use (total building)	44	48	(8.3)
Total			**13,312**	**12,072**	**10.2**
Out of scope	Energy use	Biomass use (total building)	22	22	–

Intensity

tCO_2e/£m turnover (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	83.80	78.82	6.3
tCO_2e/m^2 (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	0.029	0.030	(3.3)

Data notes

Reporting period	1 January 2013 to 31 December 2013
Baseline year	2012 (restated)
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, and therefore are not responsible for. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard
Emissions factor source	DEFRA, May 2013 – www.ukconversionfactorscarbonsmart.co.uk
Data changes and restatements	We have restated our 2012 baseline figures reflect DEFRA's new 2013 emission factors. We have reclassified some of our reporting scopes to align with the new factor changes and best practice e.g. we have removed our biomass reporting from Scope 3 to report it as 'out of scope'. In 2013 for the first time we have included fugitive emissions from our managed air conditioning and chilling equipment to our Scope 1 reporting figures. Note that these fugitive emissions are excluded from our intensity calculations.

Going concern

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

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

The Group's risks and risk management processes are set out on pages 28 to 32.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. 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 are 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.

Auditor

The Company's Audit Committee is currently conducting a tender process for the 2014 audit. This process will be completed during March 2014 and a resolution to appoint the Group's new Auditor, as recommended by the Audit Committee, together with a resolution to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 18 and 19 set out in the notice of meeting.

Annual General Meeting

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

Resolution 18 is an ordinary resolution to appoint a new Auditor for the Group. The appointment is the result of a tendering process overseen by the Audit Committee which is described in the report of the Audit Committee on pages 113 and 114.

Resolution 20 is an ordinary resolution to provide the Company with the authority to introduce the Derwent London plc Performance Share Plan 2014 the main features of which are summarised in the Notice of Annual General Meeting that accompanies the report and accounts. The new Performance Share Plan replaces the existing plan which expires in 2014 and forms part of a revised remuneration structure, details of which are given in the report of the Remuneration Committee on pages 92 to 109.

Resolution 21 is an ordinary resolution which will 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 £1,707,960 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 Association of British Insurers, 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 £3,415,919, 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 the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2015.

Resolution 22 is a special resolution, proposed annually, and will renew the Directors' authority under Sections 571 and 573 of the Companies Act 2006. The resolution empowers the Directors to allot or, now that the Company may hold shares as treasury shares (as further described below), sell 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 £256,194 which is equivalent to approximately 5% of the issued share capital as at the latest practicable date prior to the publication of this document.

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 3 year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

Allotments made under the authorisation in paragraph (B) of resolution 20 would be limited to allotments by way of a rights issue only (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 the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2015.

Resolution 23 is proposed 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 the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2015.

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 (as had previously been required under the relevant legislation). Accordingly, if the Company purchases any of its shares pursuant to resolution 23, 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 27 February 2014 was 1,062,755 which represented 1.04% of the issued share capital at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 27 February 2014 would represent 1.28% of the issued share capital.

Resolution 24 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.

By order of the Board.

TIMOTHY J. KITE ACA
COMPANY SECRETARY

27 FEBRUARY 2014

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

SIMON FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I became chairman of the Committee in July and am pleased to present the report of the Remuneration Committee's for 2013 under the new reporting regulations. We will be seeking your support for both parts of the report by way of a binding vote on the Directors' Remuneration Policy Report and an advisory vote on the Annual Report on Remuneration at the forthcoming AGM on 16 May 2014.

Derwent London's continued objective is to deliver above average long-term returns to shareholders. In an industry where relatively few people manage a large and complicated business this can only be achieved by recruiting and retaining the best people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this.

Performance and reward for 2013

As discussed in the strategic report, the Group has delivered an increase in EPRA net assets per share of 20.0% and a total return of 21.9%. This strong performance in two of the Group's key KPIs resulted in a bonus entitlement of between 95% and 100% once the Committee assessed the personal element of each individual's bonus which was then added to the mathematical result.

Awards made under the Performance Share Plan (PSP) in 2011 were subject to two conditions, one half based on relative total shareholder return (TSR) performance against a group of other real estate companies and the other half based on net asset value growth compared to the return from properties in the IPD Central London Offices Total Return Index. The performance criteria were measured at the end of the year and 55% of the total awards are expected to vest as a result of current 6th positioning against the TSR peer group and net asset value growth of 54% against the IPD Index of 43%. The net asset value part of the award was measured to 31 December 2013 and the TSR part will be measured to 1 April 2014. The Committee believes the annual bonus outturn and anticipated PSP vesting during the year fairly represents Group performance over their respective performance periods.

Remuneration policy for 2014

As a Committee we are committed to ensuring that rewards for executives are aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets. These targets focus our management team on growing the Group's net asset value and increasing total return which in turn should deliver above market returns to shareholders.

During 2013, the Committee undertook a major review of the current structure of incentive arrangements to determine if they remain effectively aligned to the corporate strategy and reflect best practice. Whilst the Committee is satisfied the remuneration structure remains fit for purpose overall – being an annual bonus plan (with a portion deferred in shares) and awards under a PSP – a number of changes to the operation of incentive arrangements are to be made along with an update of the executives' service contracts. In addition, the Committee believes that enabling executives to increase their shareholdings in the Company over time is beneficial to all shareholders. A summary of the key changes arising as a result of the above to our policy from 2014 is set out below:

- Equalisation of the maximum annual bonus opportunity at 150% of salary for all executive Directors.
- Better alignment of our annual incentive plan performance metrics with our key performance indicators. From 2014 onwards the bonus metrics will be rebalanced so that 50% of the bonus is subject to a total return measure, 25% is subject to a total property return (TPR) measure relative to the IPD Central London Offices Index and 25% remains subject to other objectives linked to corporate strategy.
- Tougher annual bonus targets. A lower proportion of bonus is to accrue for achieving the threshold performance targets in relation to the financial targets.
- Increase long-term incentive awards levels. There will be an increase in long-term incentive opportunity to bring the Company into line with market practice among sector peers. It is proposed that all executive Directors will be eligible to receive awards at up to 200% of salary.
- Better alignment of our long-term incentive plan performance metrics with our key performance indicators. For 2014 long-term incentive awards, 50% of awards will be subject to Derwent's TPR measured relative to the IPD Central London Offices Index (previously Derwent's NAV growth was measured relative to the IPD Central London Offices Index). The remaining 50% of long-term incentive awards will continue to vest subject to challenging relative TSR performance measured against our sector peers.
- Adoption of an additional two year holding period for vested shares. A holding period of two years will operate and apply to the after tax number of vested shares for long-term incentive awards granted from 2014.
- Increased shareholding guidelines will operate for all but the Chief Executive Officer. The minimum guideline will be increased from 100% to 125% of salary for all executive Directors. John Burns' guideline will remain at 200% of salary.
- Introduced consistent service contracts for executive Directors. These will exclude any unearned bonus from payments made in lieu of notice and enable the Committee to phase payments which would then be reduced proportionately to the extent that alternative employment was commenced (i.e. payments in lieu of notice may be mitigated).

The Committee believes that these changes will help retain, motivate and reward the executive Directors at a market competitive level, but only for continued market leading performance over the short, medium and long-term, whilst remaining within an acceptable risk profile.

We have sought to align the Company's remuneration with continuous improvements in our key performance indicators of total return, total property return and total shareholder return.

Further, the Committee reviewed executive Directors' salary levels in December 2013 and agreed a basic increase of 3% for 2014 which took into account another excellent year of performance by the management team over all areas of the business in 2013, the competitive nature of the market for top performing executives in the real estate sector and the increases awarded throughout the rest of the Company. The Committee awarded an additional salary increase to David Silverman to align his salary with Nigel George, Paul Williams and Damian Wisniewski which concludes a process that started when he joined the Board six years ago.

Shareholder engagement

As part of the remuneration review the Committee has actively consulted with our largest shareholders. The views expressed were considered by the Committee and helped formulate the final policy to be operated from 2014 onwards. In particular, the maximum award that may be granted under the Group's LTIP and the award vesting threshold for both the LTIP and the annual bonus have been set to reflect the feedback received from shareholders.

The Committee and I will continue to maintain an open and constructive dialogue with investors and their representative bodies. We will engage in appropriate dialogue with our major shareholders on any material changes to the remuneration policy.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

27 FEBRUARY 2014

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 UK Corporate Governance Code 2012 and the Listing Rules.

The Remuneration Policy Report will be put to a binding shareholder vote at the 2014 AGM on 16 May 2014 and, subject to receiving shareholder support, will have an effective date from that point and the Committee intends for it to endure for a period of three years. However, in practice, policy will be applied to the current financial year and throughout the three year policy period that commences from the effective date.

The annual report on remuneration will be put to an advisory vote at the 2014 AGM on 16 May 2014.

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 whether the schemes encourage the taking of excessive business risk.

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

- to ensure that the Company attracts, retains and motivates executives that 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 executives 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 below 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 promotions policy on page 99 and the application of policy for 2014 on pages 100 to 109.

Director remuneration 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 (effective from 1 January 2014) detailed in note 1 below 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 positioning, 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.	In 2013, the maximum cost of providing benefits (based on taxable value of the benefits) was 11.3% of salary in total. However, the cost of some of these 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)[3].	None

Director remuneration 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. In 2013 this resulted in a maximum contribution of 21%. The continuation of these arrangements for existing employees means that their maximum pension will be up to 21%.	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 Central London Office IPD TPR 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.

Director remuneration policy table (continued)

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
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
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)[2] 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

[1] The basic salaries effective from 1 January 2014 are John Burns £601,500, Simon Silver £516,000, Nigel George £383,000, Paul Williams £383,000, Damian Wisniewski £383,000, David Silverman £383,000.

[2] The fees effective from 1 January 2014 are Chairman £150,000 (additional benefits are provided as detailed on page 97), base fee £40,000, Committee Chairman fee £5,500, Senior Independent Director fee £5,500, Committee fee £3,750.

[3] 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 per annum.

Operation of the annual bonus plan and LTIP policy

The Committee will operate the annual bonus plan and PSP in accordance with their respective rules and in accordance with the Listing Rules 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 above);
- 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); and
- 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 105 and 107 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in prior years' report of the Remuneration Committee (e.g. bonuses earned in relation to 2013 performance) 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 linked to 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. The move in 2014 to measuring Derwent London's TPR (as opposed to NAV growth) against the TPR of the IPD Central London Offices Index ensures the Group's performance is being assessed on a consistent basis and is, therefore, considered to result in an improved performance condition. 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 is introducing both option and bonus schemes to more 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.

Chairman and non-executive Directors

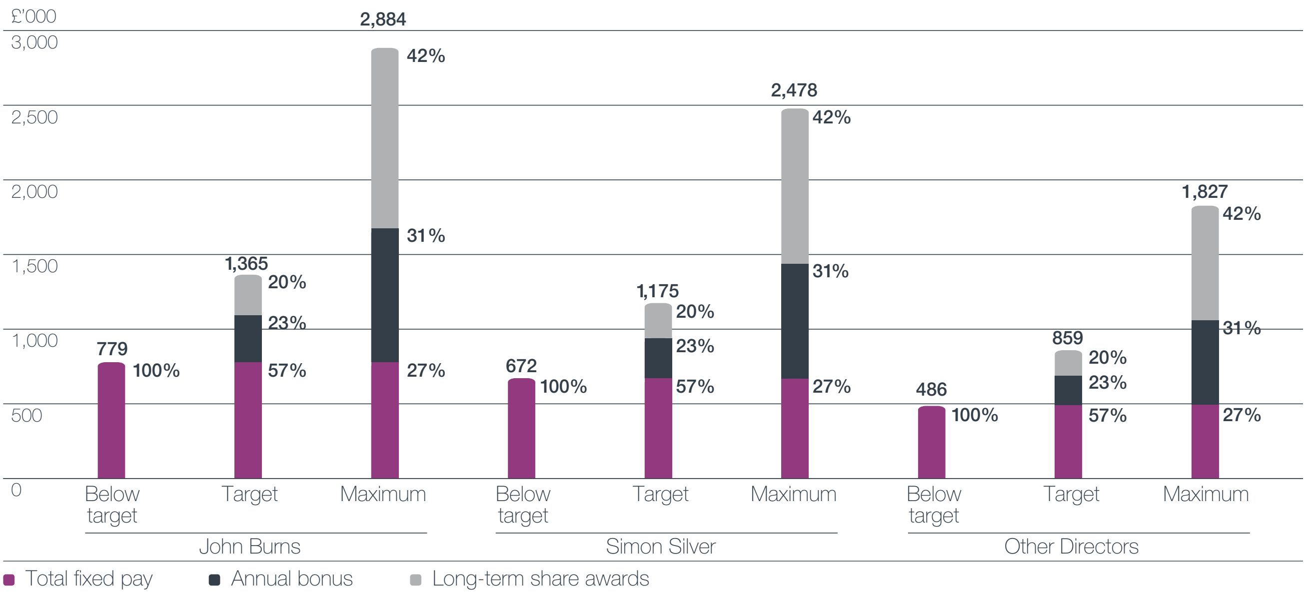
Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes although the Chairman has a number of unexercised options granted under the historical LMS Executive Share Option Scheme, details of which are given in table 4 on page 107.

The non-executive Directors do not have service contracts and are appointed for three year terms which expire as follows: Robert Farnes, 31 December 2014; Stuart Corbyn, 23 May 2015; Simon Fraser, 31 August 2015; June de Moller, 31 January 2016; Stephen Young, 31 July 2016 and Richard Dakin 31 July 2016. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31 January 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.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Remuneration scenarios for executive Directors

The Committee aims to provide a significant part of the Directors' total remuneration through variable pay and the following diagram illustrates the remuneration opportunity provided to the Directors by the new remuneration structure at minimum, target and maximum levels of performance.



Assumptions:
Below target = fixed pay only (base salary, benefits and pension).
On-target = 35% of annual bonus payable and 22.5% vesting of the LTIP awards.
Maximum = 100% of annual bonus payable and full vesting of LTIP awards.
Salary based on those applying on 1 January 2014.
Benefits value is based on the cost of supplying those benefits (using the annualised value of benefits in 31 December 2013 as a proxy).
Pension value set at 20% of the salary.
Amounts have been rounded to the nearest £1,000.
Share price growth on vesting has been ignored.
Other Directors are: Damian Wisniewski, Paul Williams, Nigel George and David Silverman, whose salary, annual bonus and LTIP arrangements for 2014 are identical.

Existing service contracts and compensation for loss of office

The service contracts of John Burns and Simon Silver are dated 20 May 1997 whilst those of Nigel George and Paul Williams are dated 31 March 1999 and that of David Silverman 2 January 2008. These contracts have no stated termination date but require 12 months' notice of termination by the Company or six months' notice by the executive. They include a provision whereby the Company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary, benefits in kind and a pension contribution or salary supplement of at least 20% of basic salary. No defined contractual entitlement to compensation arises from a change of control of the Company. Damian Wisniewski's service contract is dated 2 February 2010. In addition to terms similar to those of the other Directors, his contract includes certain post termination restrictions and a mitigation clause. Under this mitigation clause, instead of paying the liquidated damages provision outlined above, the Company can, at its discretion, alternatively make monthly payments throughout the notice period until the executive obtains an alternative employment at which point (except in the event of the Company giving notice following a change of control) monthly payments cease or are reduced depending upon the value of remuneration arising from the alternative role. If this clause is used by the Company, monthly payments would comprise one-twelfth of the total of his annual basic salary, annual pension contribution, annual value of benefits in kind and 20% of his maximum bonus potential.

Outside of the legacy arrangements of the Company's current executive Directors, the Company's policy for new appointments will be for service contracts to be terminable by the Company on one year's notice and to contain a payment in lieu of notice clause providing for monthly phased payments throughout the notice period to include pro-rated salary, benefits and pension only, until alternative employment is found, at which point payments will cease or be reduced accordingly (i.e. payments are subject to mitigation).

New service contracts

As part of the major review of the Directors' remuneration structure, new service contracts have been agreed with the executives. 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 have been brought up to date. There is no change to the notice periods.

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, for which shareholder approval is being sought at the 2014 AGM, 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 his award will vest when he 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.

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.

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.

Annual report on remuneration

Remuneration Committee

At the start of the year, the Remuneration Committee (the Committee) consisted of Stuart Corbyn, Simon Fraser, June de Moller (chairman) and Stephen Young. In July 2013 Simon Fraser took over as chairman of the Committee. 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 determines entitlements under the bonus scheme and the extent of vesting of the conditional share awards and ensure that the measures used for both schemes are comparable and consistent. During 2013 NBS also assisted with the remuneration review and replacement of the PSP. The fees paid to NBS for these services amount to £60,000. NBS did not provide any other services to the Group during the year.

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 2014

Base salaries

The base salaries that are applicable from 1 January 2014, after allowing for a 3% increase with the exception of David Silverman who has been increased by 7.3%, are as follows:

- John Burns – £601,500
- Simon Silver – £516,000
- Damian Wisniewski – £383,000
- Paul Williams – £383,000
- Nigel George – £383,000
- David Silverman – £383,000

The salary increases of 3% are in line with those offered to the wider workforce. The additional increase for David Silverman will position his salary on a consistent level with the other executive Directors and reflects his strong performance and development in the role.

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 increase in bonus potential to the executive Directors from 125% of salary to 150% of salary (other than John Burns and Simon Silver who are currently subject to a 150% of salary maximum) is being proposed at the same time as a broader restructuring of the annual bonus.

The bonus will operate subject to the following metrics:

- 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 Central London Office IPD Index; and
- 25% of bonus will be earned subject to other performance objectives tailored to the delivery of the Group's short-term strategy.

The main change in the metrics is that in the past growth in Derwent London's NAV against the growth in the properties included in the Central London Office IPD Index was used for 37.5% of the bonus. For 2014, Derwent London's TPR will be used against the Index to ensure we are comparing performance on a fully consistent basis (i.e. TPR will now be compared against TPR as opposed to NAV growth). The rebalancing on the weightings also reflects the priority that total return has in terms of the Group's KPIs.

Historically bonuses have started to accrue at the 40th percentile for relative measures of performance (TPR/NAV or total return). From 2014 onwards, the bonus targets will be toughened so that no bonus will be earned below the median/ Index performance level both in terms of TPR and total return. 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 (previously 40%). Full pay-outs are earned, on a straight-line basis for total return from achieving the threshold performance target through to the upper quartile. 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.

As a result, the revised targets can be seen to be materially tougher than the targets operated in prior years which is considered appropriate in light of the revised potential bonus opportunity.

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 of the bonus and the remaining half released on the second anniversary of the deferral.

Clawback provisions will continue to operate in the event of a misstatement or misconduct for a period of two years from the payment of a bonus.

Long-term incentives

The Committee identified the previous plan at Derwent London to be below a number of the Company's sector peers which is the group against which Derwent competes for the best executive talent. As a result, it is considered necessary to address this issue at the same time as introducing an extended holding period for vesting shares which reflects recent developments in a number of institutional investors' 'best practice' expectations. There is no change to the vesting threshold performance requirements.

Furthermore, while the Committee is sensitive to investors' preferences for continued restraint in quantum, increasing long-term incentives is considered the preferred mechanism to addressing the perceived shortfall against comparator companies since this aspect of remuneration only delivers reward to the extent that long-term shareholder value is created and serves to aid retention. In addition, the Committee believes that enabling executives to increase their shareholding in the Company over time is beneficial to all shareholders. Following consultation with the Group's largest shareholders, the maximum award under the LTIP has been set at 200% of salary. In addition, in response to the feedback received, the proportion of the award vesting at threshold performance, has been set at 22.5% compared with 25% under the current scheme.

In light of the above, it was proposed that long-term incentive awards in 2014 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	–
At median	22.5
Upper quartile	100
Straight-line vesting occurs between these points	

The peer companies are:

- Big Yellow Group plc
- The British Land Company plc
- Capital & Regional plc
- Capital & Counties plc
- Great Portland Estates plc
- Hammerson plc
- Intu Properties plc
- Land Securities Group plc
- Quintain Estates and Development 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 performance versus the constituents of the IPD Central London Offices Index with the following vesting profile:

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

Historically, Derwent London's NAV growth was compared against the performance of the properties in the IPD Central London Offices Index portfolio. To improve comparability, as detailed above for annual bonus purposes, Derwent London's NAV growth is being replaced with Derwent London's TPR to ensure performance is being measured on a like-for-like basis.

Performance periods will run over financial years. At the same time as increasing long-term incentive opportunity, as noted above, the Committee is to take account of recent developments in 'best practice' and require a minimum holding period to be observed on vested share awards. 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.

In addition, clawback provisions will also apply that enable the Committee to reclaim excess vesting in the event of a misstatement of financial results or misconduct for a period of two years from the award vesting.

Directors' remuneration summary

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

Table 1

2013	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 £'000	Total £'000
Executive								
J.D. Burns	584	51	115	584	248	1,582	906	2,488
S.P. Silver	501	35	99	501	213	1,349	778	2,127
D.M.A. Wisniewski	372	20	74	372	93	931	480	1,411
N.Q. George	372	16	77	372	70	907	494	1,401
P.M. Williams	372	20	79	372	93	936	494	1,430
D.G. Silverman	357	19	72	357	67	872	423	1,295
Non-executive								
R.A. Rayne	150	30	–	–	–	180	–	180
J.C. Ivey	58	–	–	–	–	58	–	58
R.A. Farnes	49	–	–	–	–	49	–	49
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	53	–	–	–	–	53	–	53
S.G. Young	55	–	–	–	–	55	–	55
S.W.D. Fraser	52	–	–	–	–	52	–	52
R.D.C. Dakin	18	–	–	–	–	18	–	18
	3,055	**191**	**516**	**2,558**	**784**	**7,104**	**3,575**	**10,679**

The gains from equity-settled shares are in respect of the 2011 award which will vest in April 2014 and for which the performance conditions were complete or substantially complete at 31 December 2013.

2012	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 £'000	Total £'000
Executive								
J.D. Burns	567	50	112	567	160	1,456	1,265[1]	2,721
S.P. Silver	486	35	96	486	137	1,240	1,084[1]	2,324
D.M.A. Wisniewski	361	20	72	361	24	838	651[1]	1,489
N.Q. George	361	16	75	361	24	837	692[1]	1,529
P.M. Williams	361	20	76	361	24	842	692[1]	1,534
D.G. Silverman	335	19	67	335	23	779	568[1]	1,347
Non-executive								
R.A. Rayne	150	32	–	–	–	182	–	182
J.C. Ivey	58	–	–	–	–	58	–	58
S.J. Neathercoat	43	–	–	–	–	43	–	43
R.A. Farnes	55	–	–	–	–	55	–	55
S.A. Corbyn	60	–	–	–	–	60	–	60
J. de Moller	54	–	–	–	–	54	–	54
S.G. Young	56	–	–	–	–	56	–	56
S.W.D. Fraser	15	–	–	–	–	15	–	15
	2,962	192	498	2,471	392	6,515	4,952	11,467

[1] Restated from prior year's figures to accord with BIS regulations.

The gains from equity-settled schemes are in respect of the 2010 award which vested in April 2013 and for which the performance conditions were complete or substantially complete at 31 December 2012.

Simon Fraser joined the Board on 1 September 2012 and Richard Dakin on 1 August 2013. Simon Neathercoat retired from the Board on 31 December 2012 and John Ivey retired on 31 December 2013.

Taxable benefits relates to car and fuel allowance and private medical insurance.

Determination of 2013 annual bonus outcome

Provision has been made for 2013 bonuses of between 95% and 100% (2012: 85%) of the maximum potential.

Performance Measure	Weighting % of bonus	Basis of calculation	Threshold %	Maximum %	Actual %	% payable
Growth in NAV	37.5	Relative to IPD Central London Offices Total Return Index	13.6	18.6	20.0	37.5
Total return	37.5	Total return of major real estate companies	12.7	21.6	21.9	37.5

In addition, 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;
- rent collection and the level of arrears;
- delivery of projects both in terms of timing and costs;
- health and safety performance; and
- staff retention.

The total bonus estimated for each executive Director is therefore:

	Bonus payable			Deferred bonus	
	% of maximum	% of salary	Cash bonus payable	£	% of salary
J.D. Burns	95	143	584,000	248,200	43
S.P. Silver	95	143	501,000	212,925	43
D.M.A. Wisniewski	100	125	372,000	93,000	25
N.Q. George	95	119	372,000	69,750	19
P.M. Williams	100	125	372,000	93,000	25
D.G. Silverman	95	119	357,000	66,938	19

Vesting of the deferred bonus is not subject to any performance measure other than continued employment.

Performance share plan

Half the awards granted in 2011 were subject to a relative TSR performance measure and half subject to a growth in net asset value. 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 bonus	Basis of calculation	Threshold %	Maximum %	Actual %	% vesting/ estimated vesting
Growth in NAV	50	Relative to IPD Central London Offices Total Return Index	42.8	62.7	53.6	33.3
Total shareholder return (TSR)	50	TSR of major real estate companies	63.9	141.0	73.0	21.9

As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR performance reflected its 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 2011 awards with measurement periods ending in 2013, this was the case.

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

	Number of awards vesting	Value of award on vesting[1] £
J.D. Burns	32,325	906,070
S.P. Silver	27,743	777,636
D.M.A. Wisniewski	17,115	479,733
N.Q. George	17,640	494,449
P.M. Williams	17,640	494,449
D.G. Silverman	15,100	423,253

[1] Based on the share price on February 25, 2014 and the vesting percentage of 55.2%.

Awards made during the year

On 8 April 2013 the Committee made a PSP award 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	175	21.20	48,200	1,021,840	25
S.P. Silver	Nil-cost option	175	21.20	41,350	876,620	25
D.M.A. Wisniewski	Nil-cost option	150	21.20	26,320	557,984	25
N.Q. George	Nil-cost option	150	21.20	26,320	557,984	25
P.M. Williams	Nil-cost option	150	21.20	26,320	557,984	25
D.G. Silverman	Nil-cost option	150	21.20	25,250	535,300	25

If threshold performance is not achieved, none of the award will vest.

The outstanding PSP 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	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
8.25	15/04/2012	106,000	90,150	57,250	54,500	54,500	42,700	–	23,000	428,100
13.66	01/04/2013	67,250	57,650	–	36,780	36,780	30,190	34,590	14,640	277,880
16.43	01/04/2014	58,550	50,250	–	31,950	31,950	27,350	31,000	12,750	243,800
Interest as at 1 January 2012		231,800	198,050	57,250	123,230	123,230	100,240	65,590	50,390	949,780
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
17.19	12/04/2015	57,720	49,475	–	31,500	31,500	29,230	31,500	12,620	243,545
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
8.25	17.57	(53,000)	(45,075)	(19,083)	(27,250)	(27,250)	(21,350)	–	(11,500)	(204,508)
8.25	Lapsed	(53,000)	(45,075)	(38,167)	(27,250)	(27,250)	(21,350)	–	(11,500)	(223,592)
Interest as at 31 December 2012		183,520	157,375	–	100,230	100,230	86,770	97,090	40,010	765,225
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
21.20	08/04/2016	48,200	41,350	–	26,320	26,320	25,250	26,320	10,560	204,320
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
13.66	22.44	(56,369)	(48,322)	–	(30,829)	(30,829)	(25,305)	(28,993)	(12,271)	(232,918)
13.66	Lapsed	(10,881)	(9,328)	–	(5,951)	(5,951)	(4,885)	(5,597)	(2,369)	(44,962)
Interest as at 31 December 2013		**164,470**	**141,075**	**–**	**89,770**	**89,770**	**81,830**	**88,820**	**35,930**	**691,665**

	31 December 2013	31 December 2012	1 January 2012
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.21 years	1.21 years	1.08 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 2013 was £nil (2012: £nil). The weighted average market price at the date of vesting in 2013 was £22.44 (2012: £17.57).

For all awards granted under the PSP:

– half of the shares vest based on TSR performance relative to a comparator group of companies; and
– half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index.

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.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2013 comprises the following: Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities Group plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. 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.

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 outperforming the median performing property by 5% per annum.

Share option schemes

Details of the options held by Directors and employees under the Group's 1997 Executive Share Option Scheme at 31 December 2013 are given in table 3 below. Disclosure relating to a further share option scheme in which the Directors do not participate is given in note 14.

Table 3

Exercise price £	Date from which exercisable	Expiry date	D.G. Silverman	Employees	Total
10.71	26/04/2008	25/04/2015	–	7,000	7,000
13.63	08/06/2009	07/06/2016	6,750	4,500	11,250
Outstanding at 1 January 2012			6,750	11,500	18,250
No options were granted or lapsed in 2012					
Options exercised during 2012					
Exercise price £	Market price at date of exercise £				
13.63	17.57		–	(7,000)	(7,000)
10.71	19.70		(6,750)	–	(6,750)
			(6,750)	(7,000)	(13,750)
Outstanding at 31 December 2012			–	4,500	4,500
No options were granted or lapsed in 2013					
Options exercised during 2103					
Exercise price £	Market price at date of exercise £				
13.63	24.89		–	(4,500)	(4,500)
			–	(4,500)	(4,500)
Outstanding at 31 December 2013			**–**	**–**	**–**

The weighted average exercise price of options exercised in 2013 was £13.63 (2012: £12.14) and the weighted average market price at the date of exercise was £24.89 (2012: £18.65).

	31 December 2013	31 December 2012	1 January 2012
Number of exercisable share options	–	4,500	18,250
Weighted average exercise price of exercisable share options	–	£13.63	£12.51
Weighted average remaining contracted life of exercisable share options	–	3.44 years	4.01 years
There were no non-exercisable share options at any of the year ends shown			

The exercise of options granted under the 1997 Executive Share Option Scheme is subject to a three-year performance criteria. This states that a year's options can only be exercised once the growth of the Group's net asset value per share over a subsequent three-year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more. All outstanding options have met this criterion.

Following the acquisition of LMS, options that had already vested under the LMS Executive Share Option Scheme were converted to options over Derwent London shares. Details of these options, all of which are exercisable, are given in table 4 below:

Table 4

Exercise price £	Expiry date	R.A. Rayne
7.54	29/08/2013	65,615
9.92	01/09/2014	50,274
12.03	28/06/2015	41,456
Outstanding at 1 January 2012		157,345
No options were granted, or lapsed in 2012		
Options exercised during 2012		
Exercise price £	**Market price at date of exercise £**	
7.54	17.79	(65,615)
Outstanding at 31 December 2012		91,730
No options were granted or lapsed in 2013		
Options exercised during 2013		
Exercise price £	**Market price at date of exercise £**	
9.92	22.81	(25,000)
Outstanding at 31 December 2013		**66,730**

The weighted average exercise price of options exercised during 2013 was £9.92 (2012: £7.54) and the weighted average market price at the date of exercise £22.81 (2012: £17.79).

In respect of the options outstanding at 31 December 2013 in table 4 the weighted average exercise price was £11.23 (2012: £10.87) and the weighted average remaining contracted life is 1.2 years (2012: 2.0 years).

The market price of the 5p ordinary shares at 31 December 2013 was £24.95 (2012: £21.06). During the year, they traded in a range between £21.20 and £25.74 (2012: £15.35 and £21.50).

R.A. Rayne made a gain of £322,000 (2012: £672,000) on the options exercised during the year.

Deferred bonus shares

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

Table 5

		J.D. Burns	S.P. Silver	D.M.A. Wisniewski	P.M. Williams	N.Q. George	D.G. Silverman	Total
Interest at 1 January 2012		9,883	8,471	1,631	1,892	1,892	1,553	25,322
Deferred in 2012:								
Date of deferment	Value per share on deferment							
29.03.12	£17.37	11,082	9,510	2,447	2,519	2,519	2,159	30,236
Vested in 2012:								
Date of vesting	Value per share on vesting							
02.04.12	£17.31	(4,942)	(4,236)	(816)	(946)	(946)	(777)	(12,663)
Interest at 31 December 2012		16,023	13,745	3,262	3,465	3,465	2,935	42,895
Deferred in 2013:								
Date of deferment	Value per share on deferment							
25.03.13	£21.40	7,449	6,385	1,141	1,141	1,141	1,059	18,316
Vested in 2013:								
Date of vesting	Value per share on vesting							
04.04.13	£21.50	(4,941)	(4,235)	(815)	(946)	(946)	(776)	(12,659)
04.04.13	£21.50	(5,541)	(4,755)	(1,223)	(1,259)	(1,259)	(1,079)	(15,116)
Interest at 31 December 2013		**12,990**	**11,140**	**2,365**	**2,401**	**2,401**	**2,139**	**33,436**

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are as follows.

Table 6

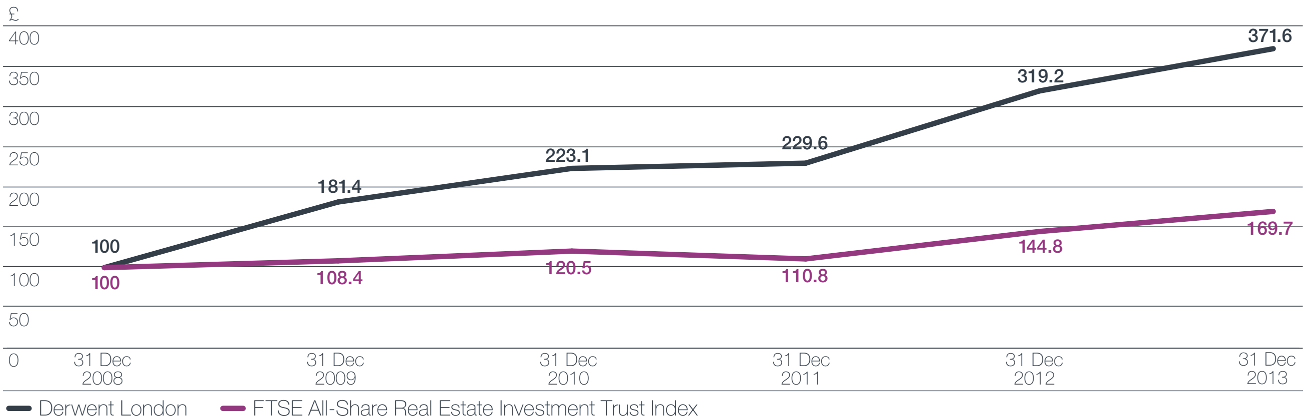
	£'000			Number of shares			
	2014 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	Total
J.D. Burns	601	1,202	22,151	790,272	12,990	164,470	967,732
S.P. Silver	516	645	9,883	352,576	11,140	141,075	504,791
D.M.A. Wisniewski	383	479	387	13,794	2,365	88,820	104,979
P.M. Williams	383	479	1,098	39,180	2,401	89,770	131,351
N.Q. George	383	479	1,042	37,179	2,401	89,770	129,350
D.G. Silverman	383	479	437	15,585	2,139	81,830	99,554

[1] Valued at £28.03 the value of a 5p ordinary share in the Company on 25 February 2014.

Details of non-executive Directors shareholdings are given on page 82.

Performance graph
Total shareholder return compared to the FTSE All-Share Real Estate Investment Trusts Indices.

Total shareholder return



Source: Thomson Reuters

This graph shows the value, by 31 December 2013, 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 – 2013

Year ended	Executive	Total remuneration £'000	Annual bonus % of max	LTIP vesting % of max
31/12/13	John Burns	2,488	95.0%	55.2%
31/12/12	John Burns	2,721	90.0%	83.8%
31/12/11	John Burns	2,387	87.5%	50.0%
31/12/10	John Burns	2,060	62.5%	50.0%
31/12/09	John Burns	1,251	25.6%	47.6%
31/12/08	John Burns	951	25.6%	36.5%

Percentage increase in elements of the remuneration of the Chief Executive Officer

	2013 £'000	2012 £'000	% change
Chief Executive			
Salary	584.0	567.0	3.00
Benefits	176.9	169.7	4.24
Bonus	832.2	726.4	14.56
Average employee			
Salary	55.2	52.7	4.74
Benefits	10.4	10.2	2.00
Bonus	17.1	12.5	36.8

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

Relative importance of the spend on pay

	2013 £m	2012 £m	% change
Staff costs	21.3	19.9	7.0
Distributions to shareholders	35.2	32.5	8.3
Net asset value	2,304	1,860	23.8

Statement of shareholder voting
At the Company's 2013 AGM, the report of the Remuneration Committee received the following votes from shareholders:

2013 AGM	m	%
Votes cast in favour	75.9	96.8
Votes cast against	2.5	3.2
Total votes cast	78.4	–
Votes withheld	5.2	–

The disclosure on Directors' remuneration in tables 1 to 6 on pages 102 to 108 has 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

27 FEBRUARY 2014

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

STUART CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder,

I am pleased to present the Nominations Committee's report for 2013.

In last year's report I noted that it was the Committee's intention to appoint a further independent non-executive Director in 2013. This was achieved in August with the appointment of Richard Dakin. The appointment followed a rigorous recruitment process initiated by Spencer Stuart, the independent executive search agency, providing the Committee with a comprehensive and diverse list of high quality candidates. The Committee reduced this to a shortlist of potential applicants and a series of interviews was undertaken which resulted in Richard being identified as the strongest candidate.

Whilst this completes a process started in 2010, the size of the Board means that there is a continuous need for refreshment. An important aspect of this process is to consider the diversity of the Board paying particular attention to its gender diversity and, as noted in the Directors' report, the Board aims to appoint at least one additional female Director by 2015. To this end the Committee will again stress the need for a diverse list of capable candidates to the executive search agency to be used in recruiting a further non-executive Director in 2014.

In planning the refreshment of the Board, the Committee also has to consider and address the need for a smooth and effective succession process at a senior level.

REPORT OF THE NOMINATIONS COMMITTEE

At the start of the year the Committee consisted of John Ivey, Robert Farnes, June de Moller and Stephen Young under the chairmanship of Stuart Corbyn. Stephen Young left the Committee in August 2013. All members are considered independent by the Company having no day-to-day involvement with the Company.

Roles 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 plan and, if appropriate, carries out 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 three times in 2013.

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.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Completed the recruitment process for a non-executive Director having regard to the qualities that had been identified as required at the start of the process. Subsequently the Committee made a recommendation to the Board that Richard Dakin be appointed based on his property finance and real estate experience.
- Completed the policy of change and refreshment of the Board which was commenced in 2010.
- Adjusted the size and membership of the Board Committees following the appointment of Richard Dakin in August 2013.
- Identified areas of experience that a new non-executive Director should possess in order to further strengthen the Board.
- Considered whether the Committee's recruitment procedure was adequate given the gender diversity matters raised by Lord Davies.
- Reviewed the terms of reference for the Committee.

STUART A. CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

27 FEBRUARY 2014

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

JUNE DE MOLLER
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder,

I took over as Chairman of the Committee from Stephen Young in August and am pleased to present the report of the Risk Committee for 2013.

The Committee has seen certain risks that were identified last year diminish in importance over the year such as Eurozone concerns and the state of the UK economy where, particularly in London, growth appears to have taken root. However, these risks have been replaced by some equally significant ones namely the potential effect of both the Scottish independence vote, the UK referendum on EU membership and cyber risk. These serve to keep the perceived level of risk in the economy high.

Within this environment the Committee has kept under review the effectiveness of the controls that the Group operates. This has seen an increase in the size of the health and safety team and an overhaul of its reporting framework together with an external review of the Group's risk assessment process and external training on the requirements of the 2010 Bribery Act.

Whilst the results of the review of the risk assessment process were generally favourable, a number of improvements were identified and these will be built into the Group's procedures over the next 12 months.

REPORT OF THE RISK COMMITTEE

At the start of the year the Committee consisted of June de Moller, John Burns and Damian Wisniewski and was chaired by Stephen Young. In August 2013, Richard Dakin joined the Committee and June de Moller took over the chairmanship.

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

Meetings
It is intended that the Committee meet twice a year with extra meetings convened if necessary for it to discharge its duties.

Work of the Committee
During the year the Committee:

- Reviewed the Group's risk register.
- Received presentations from senior management concerning the controls over certain parts of the business.
- Commissioned an external review of the Group's risk assessment process and its internal and external risk management reporting.
- Facilitated an online training course for all employees to increase staff knowledge of the 2010 Bribery Act.
- Considered a report from the Group's legal advisors concerning potential regulatory risks over the next 12 months.
- Reviewed the Group's register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Reviewed the Committee's terms of reference.

JUNE F. DE MOLLER
CHAIRMAN OF THE RISK COMMITTEE

27 FEBRUARY 2014

To read more about our risk management activities see pages 28 to 32

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 to 31 December 2013.

One of the main changes made to the UK Corporate Governance Code in 2012 was the introduction of the requirement that the Group's report and accounts present a fair, understandable and balanced view of the business. The Board asked the Committee to advise on this aspect of the report and accounts and how this duty has been discharged is set out in the report of the Audit Committee on pages 113 and 114.

During the year there was increased scrutiny on the effect that the length of an Auditor's tenure might have on the independence of the Auditor and the quality of the audit. The Committee took this into account, together with the planned rotation of the Group's audit partner in 2014, when deciding that the 2014 year end audit should be put out to tender. The process was started in December 2013 and will be concluded in March 2014. The result, together with a resolution for the appointment of the new Auditor, will be set out in the Notice of Annual General Meeting.

The main agenda item for the four meetings that the Committee holds each year is to review the regular financial reports made to shareholders. Details of the further work carried out by the Committee are given in the report that follows. The Group's Finance Director is invited to all the meetings although time is also allocated for the Committee to meet the Auditor with no executive present. In addition, as Chairman of the Committee, I have separate meetings with the audit partner. Members of the Committee also meet with the external valuers twice a year to discuss the valuation of the Group's portfolio, which is the key judgement required in determining the accuracy of the financial statements.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

27 FEBRUARY 2014

REPORT OF THE AUDIT COMMITTEE

Membership
Stephen Young was Chairman of the Committee throughout 2013. At the start of the year other members of the Committee were Stuart Corbyn, June de Moller, Robert Farnes and Simon Fraser. On 1 July 2013 Robert Farnes left the Committee and on 1 August 2013 June de Moller was replaced by Richard Dakin. All current members are considered independent by the Board, having no day-to-day involvement with the Company and not having been with the Company for more than nine years. 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. Meetings were attended by the Group's external Auditor, independent property valuers (CBRE) and members of the Group's senior management when invited.

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

- Reviewed the Group's interim and annual financial statements and the published interim management statements to consider whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

  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 and controls that exist for bringing all the relevant information to the attention of the preparers of the report and accounts.
  - Whether the procedures for obtaining assurance over the accuracy of the information were sufficient.
  - The consistency of the reports within themselves and with each other and whether they are in accordance with the information provided to 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 addressed them in the manner described.

  - 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, the external Auditor was asked to prepare a separate report on the procedures carried out in auditing the valuation and the results thereof. In addition, the Committee met with the Group's external valuers before both the interim results and the final results. These meetings were led by members of the Committee with relevant and current expertise in property valuation.

    These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the properties.
  - Revenue recognition
    Revenue recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee considered two specific treatments where risk may arise for the Group. These involved the treatment of lease incentives and the recognition of profit arising from a transaction where the profit is conditional on future performance. The Committee sought explanations from management for the treatments adopted and was satisfied with the response. 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 presentation.
  - Going concern
    The Committee noted that this was a matter reserved for the full Board. Having considered those factors that the Board uses in its judgement such as the Group's two year cash flow forecasts, the level of unutilised, committed bank facilities and the projected capital expenditure the Committee concluded that no additional procedures were necessary.
  - 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 so gained.
  - Compliance with the REIT regulations
    The Committee noted that, should the Group not comply with the REIT regulations, it could be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee considered the frequency with which compliance with the regulations was reported to the Board and the margin by which the Group complied and agreed that no further action was required for the current year.

REPORT OF THE AUDIT COMMITTEE
CONTINUED

- Assessed the effectiveness of the external audit
  In carrying out this task the Committee took into account the views of both management and the Auditor. It reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its responsiveness to any changes in the business. The Committee also reviewed the content of the external Auditor's management letter and the responses of management to the comments made therein.
- 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:
    – The level of the audit fee.
    – The nature of other services provided to the Group and the fees derived from them.
    – The existence and influence of any associated parties.
    – The duration of the appointment both of the audit firm and of any individuals involved on the audit.
    – Any participation in client affairs.
    – Any financial relationships including share ownership.
    – Any threatened or actual litigation involving the client.
  - 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 were no such appointments in the last two years.
- Conducted a tendering process for the 2014 audit of the Group.

  This was anticipated in last year's report and took into account emerging best practice, the fact that BDO had been the Group's Auditor since 1985 and that the current audit partner reaches the end of his five-year term in 2014.

  The Committee commenced the tendering process in December 2013 and participating firms were asked to submit proposals against a number of specific criteria. In the course of preparing the proposals each firm was given access to members of the Company's senior management and shown a selection of the Group's properties. The final phase of the tendering process will be a presentation to the Committee and executive management in March 2014. Assuming that all the firms meet the criteria for appointment and satisfy the Committee as to their independence, a recommendation will be made to the Board based on the quality of the audit offered. An appropriate resolution will then be put to shareholders at the AGM of the Company to be held on 16 May 2014.
- Reviewed the terms of reference for the Committee.
- 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 no matters raised.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

27 FEBRUARY 2014

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's report to the members of Derwent London plc

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs adopted by the European Union;
- the parent 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.

The financial statements of Derwent London plc for the year ended 31 December 2013 comprise the Group income statement, Group statement of comprehensive income, Group and parent Company balance sheets, Group and parent Company statements of changes in equity, Group and parent Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our assessment of risks of material misstatement

The following risks have had the greatest impact on our audit strategy and scope:

- the assessment of the carrying value of investment property. The Group uses the valuation carried out by 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;
- revenue recognition, which is a presumed fraud risk under International Standards on Auditing (UK & Ireland). Rental income is recognised on a straight line basis over the lease term. The most significant accounting estimate concerning revenue recognition is management's assessment of the lease term over which incentives are recognised. The lease term is the non-cancellable period for which a lessee has contracted to lease a property together with any further terms for which a lessee has an option to continue to lease the property, with or without further payment, when at the inception of the lease it is reasonably certain that a lessee will exercise the option. Management assess the most appropriate period over which to recognise revenue based on their assessment of lease terms and whether lessees will exercise break options. Management also calculate the fair value of amounts recoverable from property disposals where those amounts are variable depending on future overage calculations. These fair values are sensitive to assumptions around future sales prices, costs and discount rates; and
- compliance with the real estate investment trust (REIT) taxation regime, exempting the Group from tax on both rental profits and chargeable gains.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £40,000,000 which reflects the underlying level of precision within the valuation of the investment property portfolio. International Standards on Auditing (UK & Ireland) also allow the Auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality of £5,000,000 to apply to those classes of transactions and balances which impact on pre-tax earnings excluding revaluation surpluses and deficits. On the basis of our risk assessment, together with our assessment of the Group's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £30,000,000 for the financial statements as a whole and £3,750,000 for items affecting adjusted pre-tax earnings. We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £400,000, as well as those individually in excess of £50,000 where the difference affected adjusted pre-tax earnings. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The way in which we scoped our response to the risks identified above was as follows:

Carrying value of investment property

- We evaluated the competence, capability and objectivity of the external valuer which included making inquiries regarding interests and relationships that may have created a threat to the external valuer's objectivity. We met with the external valuer to discuss their approach to the valuation and their findings and we reviewed management's instructions to the external valuer and determined whether there were any limitations of scope or restrictions placed upon their work.
- We reviewed the underlying data provided to the external valuer and agreed a sample of data back to source documentation, including title deeds and tenancy agreements.
- We established our own range of expectations for the changes in the valuation of investment property based on externally available metrics, comparable organisations and wider economic and commercial factors. We considered whether the overall movement in the investment property valuation indicated potential management bias to either overstate or understate the valuation. We assessed the movement of all properties against our own expectation and challenged those valuations which fell outside of our range of expectation. Explanations received from the external valuer and management supporting these valuations were corroborated to third party evidence where appropriate.
- We reviewed and challenged management initiated adjustments to the valuations and the appropriateness of these changes with the external valuer. We ensured that any management initiated changes to the valuation were based on relevant matters of fact and corroborated the basis of these changes. We assessed the process adopted by the Board and Audit Committee in meeting with the externals valuer and reviewing and approving the year end valuation.
- In order to further assess the risk of bias in the valuations, we performed a retrospective review of property disposals and compared prices achieved with the most recent valuation. Where significant realised gains were achieved we determined why such differences arose, considered the impact on the year end valuation and corroborated those explanations received.

Revenue recognition

- We carried out testing relating to controls over revenue recognition and undertook analytical and other substantive testing over rental income including reviewing underlying lease documentation. We reviewed all leases where management had determined that it was likely that tenants would exercise break options, thereby amortising the incentive to the lease break point. For each such lease we challenged the determination and ensured that it was based upon a reasonable assessment of the characteristics of the tenant and lease.

  We identified and challenged those assumptions that had the greatest affect on the fair value of the amounts recoverable from previous property disposals under overage agreements and re-performed the calculations made by the Directors.

REIT compliance

- We carried out testing relating to the effectiveness of controls over continuing REIT compliance and conducted tests to detect any breach of the Group's REIT status.

The Audit Committee's consideration of these judgements is set out on pages 113 and 114.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and Directors' report or the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and 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 Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 88, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

RICHARD KELLY
SENIOR STATUTORY AUDITOR

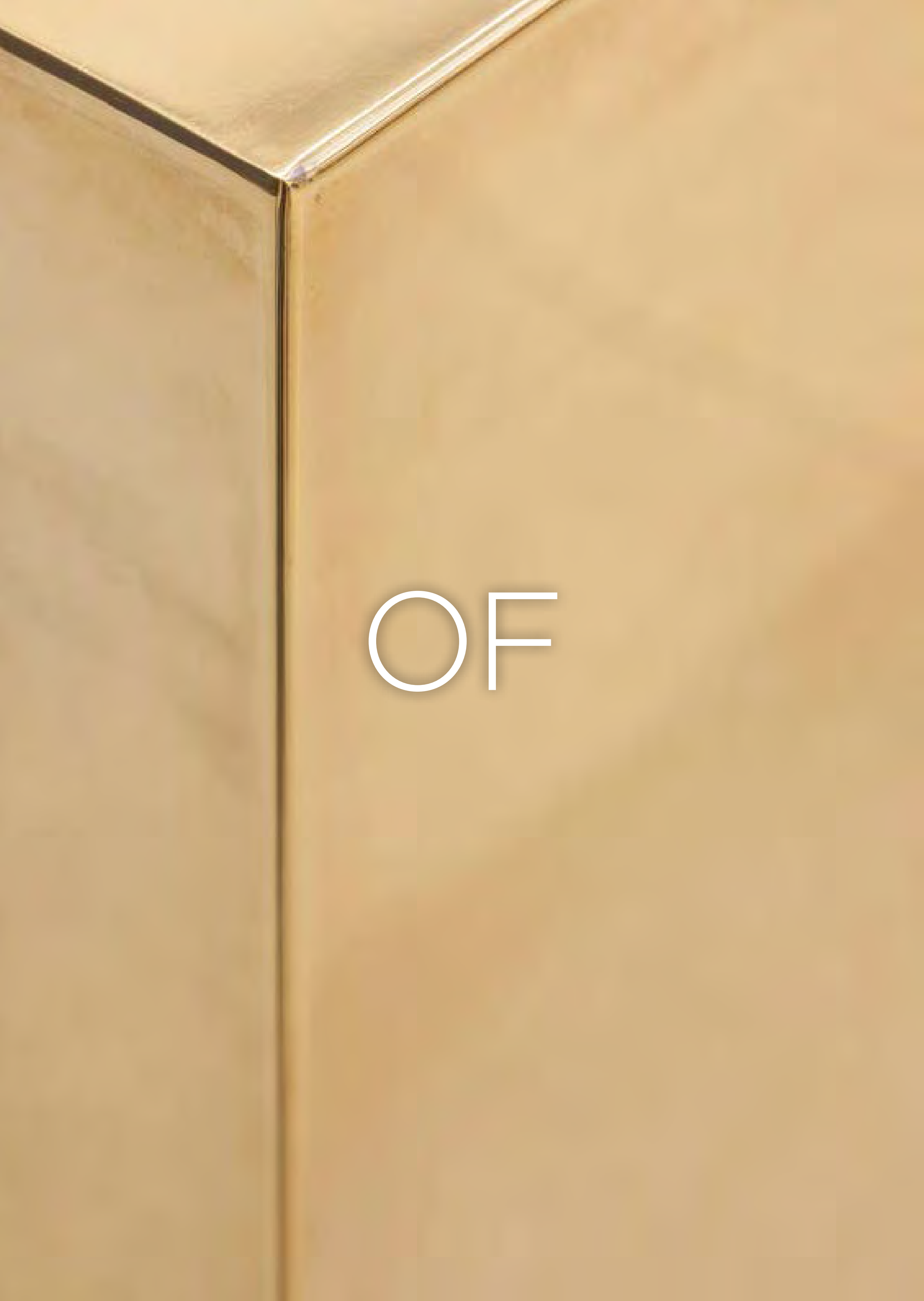
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London W1U 7EU
United Kingdom
27 February 2014

Following pages:
1-2 Stephen Street W1

FINANCIAL STATEMENTS

STRONG

LEVELS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INVESTMENT

GROUP INCOME STATEMENT

for the year ended 31 December 2013

	Note	2013 £m	2012 £m
Gross property and other income	5	**160.5**	150.6
Net property and other income	5	**124.3**	117.0
Administrative expenses		**(26.4)**	(24.5)
Movement in valuation of cash-settled share options		**(0.3)**	(0.6)
Total administrative expenses		**(26.7)**	(25.1)
Revaluation surplus	18	**335.6**	174.4
Profit on disposal of investment property	6	**53.5**	6.9
Profit on disposal of investment	7	**–**	3.9
Profit from operations		**486.7**	277.1
Finance income	8	**0.2**	0.4
Finance costs		**(41.4)**	(41.2)
Loan arrangement costs written off		**(3.2)**	–
Total finance costs	8	**(44.6)**	(41.2)
Movement in fair value of derivative financial instruments		**38.5**	(2.4)
Financial derivative termination costs	9	**(13.7)**	(6.9)
Share of results of joint ventures	10	**0.8**	1.1
Profit before tax	11	**467.9**	228.1
Tax (charge)/credit	16	**(2.4)**	4.6
Profit for the year		**465.5**	232.7
Attributable to:			
Equity shareholders	32	**456.6**	226.9
Minority interest		**8.9**	5.8
Earnings per share	17	**446.40p**	222.76p
Diluted earnings per share	17	**412.72p**	211.82p

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	2013 £m	2012 £m
Profit for the year		**465.5**	232.7
Actuarial gains on defined benefit pension scheme	15	**–**	1.2
Revaluation surplus of owner-occupied property	18	**1.9**	0.9
Deferred tax on revaluation surplus	29	**(0.1)**	0.3
Items that will not be reclassified to profit or loss		**1.8**	2.4
Foreign currency translation	8	**–**	(0.3)
Reclassification of exchange differences to income statement	7	**–**	(3.9)
Items that may be reclassified subsequently to profit or loss		**–**	(4.2)
Other comprehensive income/(expense)		**1.8**	(1.8)
Total comprehensive income relating to the year		**467.3**	230.9
Attributable to:			
Equity shareholders		**458.4**	225.1
Minority interest		**8.9**	5.8
		467.3	230.9

The notes on pages 126 to 162 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2013

	Note	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Non-current assets					
Investment property	18	**3,242.9**	2,772.6	**–**	–
Property, plant and equipment	19	**22.2**	20.3	**1.8**	1.7
Investments	20	**5.1**	10.2	**899.1**	912.1
Deferred tax	29	**–**	0.5	**4.3**	4.3
Pension scheme surplus	15	**0.8**	0.2	**0.8**	0.2
Other receivables	21	**72.1**	60.9	**–**	–
		3,343.1	2,864.7	**906.0**	918.3
Current assets					
Trading property	18	**22.6**	–	**–**	–
Trade and other receivables	22	**53.5**	50.8	**1,208.6**	792.4
Corporation tax asset		**–**	–	**0.4**	0.4
Cash and cash equivalents	34	**12.5**	4.4	**10.9**	1.2
		88.6	55.2	**1,219.9**	794.0
Non-current assets held for sale	23	**4.8**	16.5	**–**	–
Total assets		**3,436.5**	2,936.4	**2,125.9**	1,712.3
Current liabilities					
Trade and other payables	24	**83.6**	80.5	**282.8**	107.7
Corporation tax liability		**1.4**	1.9	**–**	–
Provisions	25	**1.7**	1.7	**0.7**	0.6
		86.7	84.1	**283.5**	108.3
Non-current liabilities					
Borrowings	26	**961.7**	879.2	**734.9**	650.9
Derivative financial instruments	26	**15.9**	54.3	**13.9**	50.2
Provisions	25	**0.7**	0.8	**0.7**	0.8
Deferred tax	29	**1.0**	–	**–**	–
		979.3	934.3	**749.5**	701.9
Total liabilities		**1,066.0**	1,018.4	**1,033.0**	810.2
Total net assets		**2,370.5**	1,918.0	**1,092.9**	902.1
Equity					
Share capital	30	**5.0**	5.0	**5.0**	5.0
Share premium	31	**170.4**	165.3	**170.4**	165.3
Other reserves	31	**948.6**	934.0	**651.4**	681.9
Retained earnings	31	**1,180.0**	756.1	**266.1**	49.9
Equity shareholders' funds		**2,304.0**	1,860.4	**1,092.9**	902.1
Minority interest		**66.5**	57.6	**–**	–
Total equity		**2,370.5**	1,918.0	**1,092.9**	902.1

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2014.

John D. Burns
Director

Damian M.A. Wisniewski
Director

The notes on pages 126 to 162 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Group							
At 1 January 2013	5.0	165.3	934.0	756.1	1,860.4	57.6	1,918.0
Profit for the year	–	–	–	456.6	456.6	8.9	465.5
Other comprehensive income	–	–	1.8	–	1.8	–	1.8
Share-based payments	–	0.4	0.5	2.5	3.4	–	3.4
Issue of convertible bonds	–	–	12.3	–	12.3	–	12.3
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2013	**5.0**	**170.4**	**948.6**	**1,180.0**	**2,304.0**	**66.5**	**2,370.5**
At 1 January 2012	5.0	162.9	936.6	558.2	1,662.7	51.8	1,714.5
Profit for the year	–	–	–	226.9	226.9	5.8	232.7
Other comprehensive income	–	–	(3.0)	1.2	(1.8)	–	(1.8)
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
At 31 December 2012	5.0	165.3	934.0	756.1	1,860.4	57.6	1,918.0
Company							
At 1 January 2013	5.0	165.3	681.9	49.9	902.1	–	902.1
Profit for the year	–	–	–	205.6	205.6	–	205.6
Share-based payments	–	0.4	0.5	2.5	3.4	–	3.4
Issue of long-term intercompany loan	–	–	12.3	–	12.3	–	12.3
Transfer between reserves[2]	–	–	(43.3)	43.3	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	4.7	–	(4.7)	–	–	–
At 31 December 2013	**5.0**	**170.4**	**651.4**	**266.1**	**1,092.9**	**–**	**1,092.9**
At 1 January 2012	5.0	162.9	600.5	31.4	799.8	–	799.8
Profit for the year	–	–	–	128.5	128.5	–	128.5
Other comprehensive income	–	–	–	1.2	1.2	–	1.2
Share-based payments	–	0.4	0.4	2.3	3.1	–	3.1
Transfer between reserves[2]	–	–	81.0	(81.0)	–	–	–
Dividends paid	–	–	–	(30.5)	(30.5)	–	(30.5)
Scrip dividends	–	2.0	–	(2.0)	–	–	–
At 31 December 2012	5.0	165.3	681.9	49.9	902.1	–	902.1

[1] See note 31.

[2] £43.3m (2012: £71.6m) of this transfer from retained earnings to other reserves related to the impairment of the Company's investment in London Merchant Securities Ltd. The remainder in 2012 related to the equity portion of the long-term intercompany loan.

The notes on pages 126 to 162 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2013

	Note	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Operating activities					
Property income		**123.3**	118.1	**–**	–
Property expenses		**(9.1)**	(9.9)	**–**	–
Cash paid to and on behalf of employees		**(19.0)**	(17.8)	**(18.1)**	(17.1)
Other administrative expenses		**(4.9)**	(4.3)	**(5.8)**	(4.4)
Interest received		**0.2**	0.1	**–**	–
Interest paid	8	**(32.3)**	(33.3)	**(19.8)**	(22.0)
Other finance costs		**(3.4)**	(3.4)	**(2.8)**	(3.2)
Other income		**2.8**	2.5	**2.2**	2.4
Distributions received from joint ventures		**1.2**	0.7	**0.5**	0.4
Tax (paid)/received in respect of operating activities		**(1.3)**	(0.2)	**–**	0.2
Net cash from/(used in) operating activities		**57.5**	52.5	**(43.8)**	(43.7)
Investing activities					
Acquisition of investment properties		**(130.1)**	(99.8)	**–**	–
Capital expenditure on the property portfolio	8	**(108.4)**	(78.6)	**–**	–
Disposal of investment properties		**149.7**	161.0	**–**	–
Purchase of property, plant and equipment		**(0.4)**	(0.4)	**(0.4)**	(0.4)
Purchase of investment in subsidiary		**–**	–	**(33.4)**	(3.3)
Advances to minority interest holder		**(2.5)**	(2.4)	**–**	–
REIT conversion charge		**(0.6)**	–	**–**	–
Net cash used in investing activities		**(92.3)**	(20.2)	**(33.8)**	(3.7)
Financing activities					
Net proceeds of bond issue		**146.2**	–	**–**	–
Repayment of revolving bank loan		**(274.5)**	(123.0)	**(274.5)**	–
Drawdown of new revolving bank loan		**280.6**	73.0	**280.6**	73.0
Net movement in intercompany loans		**–**	–	**190.6**	(174.9)
Net movement in other revolving bank loans		**–**	133.5	**–**	133.5
Repayment of non-revolving bank loans		**(65.0)**	(158.5)	**(65.0)**	(33.5)
Drawdown of non-revolving loan		**–**	81.6	**–**	81.6
Repayment of loan notes		**–**	(1.1)	**–**	(1.1)
Financial derivative termination costs		**(13.7)**	(6.9)	**(13.7)**	–
Net proceeds of share issues	30	**0.4**	0.4	**0.4**	0.4
Dividends paid	33	**(31.1)**	(30.4)	**(31.1)**	(30.4)
Net cash from/(used in) financing activities		**42.9**	(31.4)	**87.3**	48.6
Increase in cash and cash equivalents in the year		**8.1**	0.9	**9.7**	1.2
Cash and cash equivalents at the beginning of the year		**4.4**	3.5	**1.2**	–
Cash and cash equivalents at the end of the year	34	**12.5**	4.4	**10.9**	1.2

The notes on pages 126 to 162 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

1 Basis of preparation

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

2 Changes in accounting policies

The principal accounting policies are described in note 42 and are consistent with the 2012 annual financial statements, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year. The new standards adopted during 2013 are outlined below.

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

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

Standards and interpretations in issue but not yet effective

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

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

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

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

3 Significant 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. 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 Group's significant accounting policies are stated in note 42. Not all of these accounting policies require management to make difficult, subjective or complex judgements or 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. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the nature of any disputed amounts.

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 18.

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.

Compliance with the real estate investment trust (REIT) taxation regime

The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax exempt business; and
- at least 90% of the tax exempt business must be distributed.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business which is within the REIT structure.

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 17. Additionally, information is provided to the Executive Committee showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property, assets held for sale and trading property and comprised 93% office buildings[1] by value (2012: 93%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 7% (2012: 7%) represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and property value.

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

All of the Group's properties are based in the UK. The Group also has a joint venture investment in Prague which represents 0.1% of the Group's assets (see notes 20 and 23), is in the process of being sold and is excluded from this analysis. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the strategic report.

[1] Some office buildings have an ancillary element such as retail or residential.

Gross property income

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

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

Property portfolio

	2013			2012		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	1,923.9	120.7	**2,044.6**	1,782.9	86.1	1,869.0
West End borders	270.3	13.1	**283.4**	244.5	9.9	254.4
City borders	863.4	4.6	**868.0**	590.2	4.5	594.7
Provincial	–	89.2	**89.2**	–	88.9	88.9
	3,057.6	227.6	**3,285.2**	2,617.6	189.4	2,807.0
Fair value						
West End central	1,953.0	123.5	**2,076.5**	1,806.4	86.2	1,892.6
West End borders	289.9	13.1	**303.0**	259.7	9.9	269.6
City borders	875.3	4.6	**879.9**	599.4	4.5	603.9
Provincial	–	93.7	**93.7**	–	93.5	93.5
	3,118.2	234.9	**3,353.1**	2,665.5	194.1	2,859.6

A reconciliation between the fair value and carrying value of the portfolio is set out in note 18.

5 Property and other income

	2013 £m	2012 £m
Gross rental income	**130.9**	124.7
Surrender premiums received	**1.6**	0.3
Write-off of associated rents previously recognised in advance	**(0.9)**	(0.2)
	0.7	0.1
Gross property income	**131.6**	124.8
Service charge income	**26.9**	23.3
Other income	**2.0**	2.5
Gross property and other income	**160.5**	150.6

Gross rental income	**130.9**	124.7
Ground rent	**(0.4)**	(0.5)
Service charge income	**26.9**	23.3
Service charge expenses	**(28.8)**	(24.8)
	(1.9)	(1.5)
Other property costs	**(6.9)**	(8.6)
Net rental income	**121.7**	114.1
Other income	**2.0**	2.5
Net surrender premiums received	**0.7**	0.1
Reverse surrender premiums	**(0.2)**	(0.2)
Dilapidation receipts	**0.1**	0.5
Net property and other income	**124.3**	117.0

Included within rental income is £2.3m (2012: £2.5m) of income from a lease at one of the Group's buildings where an agreement was entered into to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income. The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments). Additionally, rental income includes £5.6m (2012: £8.2m) relating to rents recognised in advance of the cash receipts.

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

Net property and other income includes costs of £0.4m (2012: £0.5m) relating to properties which produced no income during the year.

6 Profit on disposal of investment property

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

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

7 Profit on disposal of investment

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

8 Finance income and costs

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

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

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

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

9 Financial derivative termination costs

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

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

10 Share of results of joint ventures

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

See note 20 for further details of the Group's joint ventures.

11 Profit before tax

	2013 £m	2012 £m
This is arrived at after charging:		
Depreciation and amortisation	0.4	0.4
Contingent rent payable under property finance leases	0.4	0.5
Auditor's remuneration		
Audit – Group	0.2	0.2
Audit – subsidiaries	0.1	0.1

12 Directors' emoluments

	2013 £m	2012 £m
Remuneration for management services	**6.1**	5.5
Non-executive Directors' remuneration	**0.5**	0.5
Gain on exercise of share options	**5.3**	3.8
Pension contributions	**0.5**	0.5
	12.4	10.3
National insurance contributions	**1.6**	1.4
	14.0	11.7

Included within the figures shown in note 13 below are amounts recognised in the Group income statement, in accordance with IFRS 2 Share-based Payment, relating to the Directors. These are expenses of £3.5m (2012: £3.3m) relating to equity-settled share options and deferred bonus shares and £0.3m (2012: £0.7m) 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 92 to 109. The only key management personnel are the Directors.

13 Employees

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Staff costs, including those of Directors:				
Wages and salaries	**13.6**	12.3	**13.4**	12.2
Social security costs	**1.9**	1.9	**1.9**	1.8
Pension costs	**1.7**	1.5	**1.7**	1.5
Share-based payments expense relating to equity-settled schemes	**3.8**	3.5	**3.8**	3.5
Movement in valuation of cash-settled share options	**0.3**	0.6	**–**	–
National insurance contributions relating to cash-settled schemes	**–**	0.1	**–**	–
Share-based payments expense relating to cash-settled schemes	**0.3**	0.7	**–**	–
	21.3	19.9	**20.8**	19.0

The average number of employees in the Group during the year, excluding Directors, was 87 (2012: 83). The average number of employees in the Company during the year, excluding Directors, was 83 (2012: 79). All were employed in administrative roles. In addition, there were a further 12 Group employees (2012: 13) whose costs were recharged to tenants.

14 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 92 to 109, 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 92 to 109. 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	57,500
	13.20	18/03/2013	17/03/2020	53,000
	16.60	25/03/2014	24/03/2021	86,500
Outstanding at 1 January 2012				197,000
Options granted during the year	17.19	12/04/2015	11/04/2022	99,750
Options exercised	6.10			(45,575)
Options lapsed	13.20			(3,000)
Options lapsed	16.60			(3,000)
Options lapsed during the year				(6,000)
Outstanding at 31 December 2012				245,175
Options granted during the year	21.99	10/04/2016	09/04/2023	95,500
Options exercised	6.10			(2,405)
Options exercised	13.20			(26,160)
Options lapsed	13.20			(2,000)
Options lapsed	16.60			(2,250)
Options lapsed	17.19			(3,500)
Options lapsed during the year				(7,750)
Outstanding at 31 December 2013				**304,360**

	31 December 2013	31 December 2012	1 January 2012
Number of shares:			
Exercisable	**31,360**	11,925	–
Non-exercisable	**273,000**	233,250	197,000
Weighted average exercise price of share options:			
Exercisable	**£11.04**	£6.10	–
Non-exercisable	**£18.69**	£16.12	£12.62
Weighted average remaining contracted life of share options:			
Exercisable	**6.05 years**	6.21 years	–
Non-exercisable	**8.32 years**	8.46 years	8.37 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**–**	–	–
Non-exercisable	**£15.99**	£14.90	£11.40

The weighted average share price of options exercised during 2013 was £23.50 (2012: £18.52).

The following information is relevant in the determination of the fair value of the options granted during 2012 and 2013 under the equity-settled employee share plan operated by the Group.

	2013	2012
Option pricing model used	**Binomial lattice**	Binomial lattice
Risk-free interest rate	**0.8%**	0.7%
Volatility	**25.0%**	41.0%
Dividend yield	**1.5%**	1.8%

For both the 2013 and 2012 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.

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31 December 2013 of £24.95 (2012: £21.06) and a dividend yield of 1.4% (2012: 1.5%) were used together with a risk-free interest rate of 0.3% (2012: 0.3%).

An assumption of zero employee turnover has been made and a volatility assumption of 17% pa has been used for options with expected terms of one year, which now covers all outstanding awards (2012: 18% pa).

In general, the value of an option is affected by how quickly employees are assumed to exercise their awards after vesting. In this case, however, given the other assumptions, the share price at 31 December 2013, and the fact that the expected lives of the options are relatively short, the fair values are not sensitive to this assumption. It has been assumed that employees try to maximise their returns and therefore do not exercise their options immediately.

15 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 £1.3m (2012: £1.2m).

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 pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 5.2% pa (2012: 5.4% pa) and that salaries will be increased at 5.0% pa (2012: 4.4% pa). The market value of assets of the scheme at 31 December 2013 was £12.2m (2012: £12.0m) and the actuarial value of those assets on an ongoing basis represented 110% (2012: 102%) of the benefit of £11.1m (2012: £11.8m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.8m (2012: £0.2m). The Group paid a deficit reduction contribution of £0.5m during the year (2012: £0.5m) and £0.1m (2012: £0.1m) of normal pension contributions.

Amounts included in the balance sheet

	2013 £m	2012 £m	2011 £m
Fair value of plan assets	**12.2**	12.0	13.2
Present value of defined benefit obligation	**(11.1)**	(11.8)	(14.7)
Surplus/(deficit) in scheme	**1.1**	0.2	(1.5)
Impact of asset ceiling	**(0.3)**	–	–
Net asset/(liability)	**0.8**	0.2	(1.5)

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/(liability) 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 £11.1m (2012: £11.8m).

All actuarial gains and losses are recognised in other comprehensive income in the year in which they occur.

Reconciliation of the impact of the asset ceiling

	2013 £m	2012 £m
Actuarial losses on asset ceiling	**0.3**	–
Impact of asset ceiling at end of the year	**0.3**	–

The Group has reviewed the implications of the guidance provided by IFRIC14 IAS 19 Limit on Defined Benefit Asset and concluded that it is not necessary to make any adjustments to the IAS19 figures in respect of an asset ceiling or minimum funding requirement at 31 December 2013. The maximum economic benefit available is entirely in the form of a reduction in future contributions.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2013 £m	2012 £m
At 1 January	**11.8**	14.7
Current service cost	**0.1**	0.1
Interest cost	**0.5**	0.6
Actuarial losses due to scheme experience	**–**	0.5
Actuarial gains due to changes in demographic assumptions	**–**	(1.1)
Actuarial losses/(gains) due to changes in financial assumptions	**0.3**	(0.4)
Benefits paid, death in service premiums and expenses	**(1.6)**	(2.6)
At 31 December	**11.1**	11.8

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

	2013 £m	2012 £m
At 1 January	**12.0**	13.2
Interest income	**0.5**	0.6
Return on plan assets (excluding amounts included in interest income)	**0.7**	0.3
Contributions by the Group	**0.6**	0.5
Benefits paid, death in service premiums and expenses	**(1.6)**	(2.6)
At 31 December	**12.2**	12.0

The actual return on the plan assets over the year was £1.2m (2012: £0.9m).

The expected return on the assets at 31 December 2012 was 5.2%. This compares to the discount rate of 4.7% used in the calculation of the interest income for the year ended 31 December 2013.

Defined benefit costs recognised in the income statement

	2013 £m	2012 £m
Current service cost	**0.1**	0.1
Defined benefit costs recognised in profit or loss	**0.1**	0.1

Amounts recognised in other comprehensive income

	2013 £m	2012 £m
Gain on plan assets (excluding amounts recognised in net interest cost)	**0.7**	0.3
Experience losses arising on the defined benefit obligation	**–**	(0.5)
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	**–**	1.0
(Loss)/gain from changes in the financial assumptions underlying the present value of the defined benefit obligation	**(0.4)**	0.4
Gain from total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	**0.3**	1.2
Loss from the effect of the asset ceiling	**(0.3)**	–
Total gain recognised in other comprehensive income	**–**	1.2

Fair value of plan assets

	2013 £m	2012 £m	2011 £m
UK equities	**0.5**	0.1	1.2
Overseas equities	**0.6**	0.1	1.1
Corporate bonds	**–**	–	0.3
Government bonds	**2.4**	2.6	1.9
Cash	**0.6**	0.7	1.4
Other	**8.1**	8.5	7.3
Total assets	**12.2**	12.0	13.2

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 trustees' 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 2013.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2013 £m	2012 £m	2011 £m
Discount rate	**4.6**	4.7	4.7
Inflation (RPI)	**3.5**	2.9	3.1
Salary increases	**5.0**	4.4	4.6
Allowance for commutation of pension for cash at retirement	**75% of Post A Day Pension**	75% of Post A Day Pension	No allowance

Given the sustained low level of discount rate and the fact that the pension increases are all fixed, the assumption for commutation has become material.

15 Pension costs (continued)

	Life expectancy at age 65 Years
Male retiring in 2013	23.5
Female retiring in 2013	25.9
Male retiring in 2033	25.4
Female retiring in 2033	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 6.2%
Inflation (RPI)	Increase of 0.25% pa	Increase by 0.2%
Salary increases	Increase of 0.25% pa	Increase by 0.2%
Rate of mortality	Increase in life expectancy of one year	Increase by 2.6%
Allowance for commutation of pension for cash at retirement	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 1.2%

The sensitivities shown above are approximate, and each one 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 2013 is 25 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 detrimentally impact the balance sheet position and may give rise to increased charges in the future. This effect would be partially offset by an increase in 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 2014 is £0.6m.

16 Tax charge/(credit)

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

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

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

	2013 £m	2012 £m
Profit before tax	**467.9**	228.1
Expected tax charge based on the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)[1]	**108.8**	55.9
Difference between tax and accounting profit on disposals	**(15.0)**	(1.1)
REIT exempt income	**(11.0)**	(5.6)
Revaluation surplus attributable to REIT properties	**(78.0)**	(42.3)
Expenses and fair value adjustments not allowable for tax purposes	**(1.8)**	(4.7)
Capital allowances	**(3.9)**	(3.3)
Origination and reversal of temporary differences	**1.3**	(5.1)
Other differences	**1.8**	1.4
Tax charge/(credit) in respect of profit for the year	**2.2**	(4.8)
Adjustments in respect of prior years' tax	**0.2**	0.2
	2.4	(4.6)

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

17 EPRA performance measures

Summary table

	2013		2012	
		Pence per share p		Pence per share p
EPRA earnings	**£55.1m**	**53.87**	£51.3m	50.36
EPRA adjusted net asset value	**£2,509.9m**	**2,264**	£1,933.9m	1,886
EPRA triple net asset value	**£2,463.2m**	**2,222**	£1,809.0m	1,764
EPRA vacancy rate	**1.0%**		1.6%	
EPRA cost ratio (including direct vacancy costs)	**25.1%**		25.2%	
EPRA net initial yield	**4.2%**		4.3%	
EPRA 'topped-up' net initial yield	**4.8%**		4.8%	

The definition of these measures can be found on page 166.

Number of shares

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

The £175m unsecured convertible bonds 2016 ('2016 bonds') and £150m unsecured convertible bonds 2019 ('2019 bonds') have initial conversion prices set at £22.22 and £33.35, respectively. The dilutive effect of these shares is required to be recognised in accordance with IAS 33 Earnings per Share. The shares are not recognised in the calculations if they are anti-dilutive. For 2013 and 2012, the shares created by the conversion of the 2016 bonds are dilutive for unadjusted earnings per share but anti-dilutive for EPRA and underlying earnings per share. They are dilutive for NAV and EPRA NAV per share in 2013 but anti-dilutive for all NAV measures in 2012. For consistency purposes, the Group has adopted the same approach for dilution due to convertible bonds for the calculation of EPRA triple NAV per share as EPRA NAV per share. For 2013, the shares created by the conversion of the 2019 bonds, issued in 2013, are dilutive for unadjusted earnings per share but anti-dilutive for EPRA and underlying earnings per share and all NAV per share measures.

Profit before tax, earnings and earnings per share

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Diluted earnings for year ended 31 December 2013		464.8		412.72
Interest effect of dilutive convertible bonds		(8.2)		
Undiluted profit/earnings	467.9	456.6	446.40	
Adjustment for:				
Disposal of properties	(53.5)	(53.5)		
Group revaluation surplus	(335.6)	(334.3)		
Joint venture revaluation deficit	0.3	0.3		
Fair value movement in derivative financial instruments	(38.5)	(38.5)		
Financial derivative termination costs	13.7	13.7		
Loan arrangement costs written off	3.2	3.2		
Movement in valuation of cash-settled share options	0.3	0.3		
Minority interests in respect of the above	–	7.3		
EPRA and underlying	**57.8**	**55.1**	**53.87**	**53.61**
Diluted earnings for year ended 31 December 2012		233.5		211.82
Interest effect of dilutive convertible bonds		(6.6)		
Undiluted profit/earnings	228.1	226.9	222.76	
Adjustment for:				
Disposal of properties	(6.9)	(6.9)		
Disposal of investment	(3.9)	(3.9)		
Group revaluation surplus	(174.4)	(178.8)		
Joint venture revaluation surplus	(0.3)	(0.3)		
Fair value movement in derivative financial instruments	2.4	2.4		
Financial derivative termination costs	6.9	6.9		
Movement in valuation of cash-settled share options	0.6	0.6		
Minority interests in respect of the above	–	4.4		
EPRA	52.5	51.3	50.36	50.12
Foreign exchange gain	(0.3)	(0.3)		
Rates credits	(0.3)	(0.3)		
Underlying	51.9	50.7	49.77	49.53

17 EPRA performance measures (continued)

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2013			
Net assets attributable to equity shareholders – diluted	2,471.7		2,230
Remove conversion of 2.75% unsecured convertible bonds 2016	(167.7)		
Net assets attributable to equity shareholders – undiluted	2,304.0	2,248	
Adjustment for:			
Revaluation of trading properties	2.1		
Deferred tax on revaluation surplus	5.5		
Fair value of derivative financial instruments	15.9		
Fair value adjustment to secured bonds	16.9		
Minority interest in respect of the above	(2.2)		
EPRA net asset value – undiluted	2,342.2	2,286	
Adjustment for:			
Potential conversion of 2.75% unsecured convertible bonds 2016	167.7		
EPRA net asset value – diluted	**2,509.9**		**2,264**
Adjustment for:			
Deferred tax on revaluation surplus	(5.5)		
Fair value of derivative financial instruments	(15.9)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	0.1		
Mark-to-market of secured bonds 2026	(24.0)		
Mark-to-market of fixed rate secured loan 2024	8.7		
Unamortised issue and arrangement costs	(12.3)		
Minority interest in respect of the above	2.2		
EPRA triple net asset value – diluted	**2,463.2**		**2,222**
Adjustments for 2.75% unsecured convertible bonds 2016:			
Remove conversion of bonds	(167.7)		
Unamortised issue and arrangement costs	(2.3)		
Mark-to-market of bonds	(34.5)		
EPRA triple net asset value – undiluted	2,258.7	2,204	
At 31 December 2012			
Net assets attributable to equity shareholders	1,860.4	1,824	1,814
Adjustment for:			
Deferred tax on revaluation surplus	4.1		
Fair value of derivative financial instruments	54.3		
Fair value adjustment to secured bonds	17.8		
Minority interest in respect of the above	(2.7)		
EPRA net asset value	1,933.9	1,896	1,886
Adjustment for:			
Deferred tax on revaluation surplus	(4.1)		
Fair value of derivative financial instruments	(54.3)		
Mark-to-market of unsecured bonds 2016	(20.0)		
Mark-to-market of secured bonds 2026	(39.0)		
Mark-to-market of fixed rate secured loan 2024	1.0		
Unamortised issue and arrangement costs[1]	(11.2)		
Minority interest in respect of the above	2.7		
EPRA triple net asset value	1,809.0	1,773	1,764

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

Vacancy rate

	2013 £m	2012 £m
Annualised estimated rental value of vacant premises	**1.5**	2.1
Portfolio estimated rental value	**198.9**	175.0
Less non-EPRA properties[1]	**(47.8)**	(44.1)
	151.1	130.9
EPRA vacancy rate	**1.0%**	1.6%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Cost ratio

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

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

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

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

Net initial yield and 'topped-up' net initial yield

	2013 £m	2012 £m
Property portfolio – wholly owned	**3,353.1**	2,859.6
Share of joint ventures	**21.6**	20.5
Less non-EPRA properties[1]	**(645.2)**	(583.8)
Completed property portfolio	**2,729.5**	2,296.3
Allowance for:		
Estimated purchasers' costs	**158.3**	132.0
Estimated costs to complete	**0.4**	0.5
EPRA property portfolio valuation (A)	**2,888.2**	2,428.8
Annualised contracted rental income, net of ground rents	**126.0**	119.6
Share of joint ventures	**1.9**	1.9
Less non-EPRA properties[1]	**(9.2)**	(15.0)
Add outstanding rent reviews	**2.5**	0.7
Less estimate of non-recoverable expenses	**(1.3)**	(1.6)
	(8.0)	(15.9)
Current income net of non-recoverable expenses (B)	**119.9**	105.6
Contractual rental increases across the portfolio	**30.0**	21.0
Less non-EPRA properties[1]	**(10.1)**	(9.0)
Contractual rental increases across the EPRA portfolio	**19.9**	12.0
'Topped-up' net annualised rent (C)	**139.8**	117.6
EPRA net initial yield (B ÷ A)	**4.2%**	4.3%
EPRA 'topped-up' net initial yield (C ÷ A)	**4.8%**	4.8%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

18 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Group							
Carrying value							
At 1 January 2013	2,296.6	476.0	2,772.6	17.9	16.5	–	2,807.0
Acquisitions	129.8	(0.5)	129.3	–	–	–	129.3
Capital expenditure	81.0	18.0	99.0	–	–	4.0	103.0
Interest capitalisation	3.8	0.9	4.7	–	–	0.1	4.8
Additions	214.6	18.4	233.0	–	–	4.1	237.1
Disposals	(0.6)	(79.3)	(79.9)	–	(16.5)	–	(96.4)
Depreciation	–	–	–	(0.1)	–	–	(0.1)
Transfers	(18.5)	–	(18.5)	–	–	18.5	–
Revaluation	281.1	54.5	335.6	1.9	–	–	337.5
Movement in grossing up of headlease liabilities	–	0.1	0.1	–	–	–	0.1
At 31 December 2013	**2,773.2**	**469.7**	**3,242.9**	**19.7**	**–**	**22.6**	**3,285.2**
At 1 January 2012	2,068.9	376.0	2,444.9	17.1	137.5	–	2,599.5
Acquisitions	57.1	44.4	101.5	–	–	–	101.5
Capital expenditure	63.9	13.2	77.1	–	0.4	–	77.5
Interest capitalisation	4.2	0.7	4.9	–	–	–	4.9
Additions	125.2	58.3	183.5	–	0.4	–	183.9
Disposals	(16.1)	(0.2)	(16.3)	–	(137.9)	–	(154.2)
Depreciation	–	–	–	(0.1)	–	–	(0.1)
Transfers	(17.7)	1.2	(16.5)	–	16.5	–	–
Revaluation	136.3	38.1	174.4	0.9	–	–	175.3
Movement in grossing up of headlease liabilities	–	2.6	2.6	–	–	–	2.6
At 31 December 2012	2,296.6	476.0	2,772.6	17.9	16.5	–	2,807.0
Adjustments from fair value to carrying value							
At 31 December 2013							
Fair value	**2,843.1**	**465.6**	**3,308.7**	**19.7**	**–**	**24.7**	**3,353.1**
Revaluation of trading property	–	–	–	–	–	(2.1)	(2.1)
Lease incentives and costs included in receivables	(69.9)	(4.1)	(74.0)	–	–	–	(74.0)
Grossing up of headlease liabilities	–	8.2	8.2	–	–	–	8.2
Carrying value	**2,773.2**	**469.7**	**3,242.9**	**19.7**	**–**	**22.6**	**3,285.2**
At 31 December 2012							
Fair value	2,353.9	471.3	2,825.2	17.9	16.5	–	2,859.6
Lease incentives and costs included in receivables	(57.3)	(4.2)	(61.5)	–	–	–	(61.5)
Grossing up of headlease liabilities	–	8.9	8.9	–	–	–	8.9
Carrying value	2,296.6	476.0	2,772.6	17.9	16.5	–	2,807.0

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

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

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

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

Reconciliation of revaluation surplus

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

Valuation process

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

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

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

Valuation techniques

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

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

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

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

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

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

18 Property portfolio (continued)

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

[1] 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.

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

Sensitivity of measurement to variations in the significant unobservable inputs

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

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

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

Historical cost

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

19 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2013	17.9	1.5	0.9	20.3
Additions	–	–	0.5	0.5
Disposals	–	–	(0.1)	(0.1)
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	1.9	–	–	1.9
At 31 December 2013	**19.7**	**1.5**	**1.0**	**22.2**
At 1 January 2012	17.1	1.5	0.8	19.4
Additions	–	–	0.4	0.4
Depreciation	(0.1)	–	(0.3)	(0.4)
Revaluation	0.9	–	–	0.9
At 31 December 2012	17.9	1.5	0.9	20.3
Net book value				
Cost or valuation	19.7	1.5	2.5	23.7
Accumulated depreciation	–	–	(1.5)	(1.5)
At 31 December 2013	**19.7**	**1.5**	**1.0**	**22.2**
Net book value				
Cost or valuation	17.9	1.5	2.2	21.6
Accumulated depreciation	–	–	(1.3)	(1.3)
At 31 December 2012	17.9	1.5	0.9	20.3
Company				
At 1 January 2013		0.9	0.8	1.7
Additions		–	0.5	0.5
Disposals		–	(0.1)	(0.1)
Depreciation		–	(0.3)	(0.3)
At 31 December 2012		**0.9**	**0.9**	**1.8**
At 1 January 2012		0.9	0.7	1.6
Additions		–	0.4	0.4
Depreciation		–	(0.3)	(0.3)
At 31 December 2012		0.9	0.8	1.7
Net book value				
Cost or valuation		0.9	2.5	3.4
Accumulated depreciation		–	(1.6)	(1.6)
At 31 December 2013		**0.9**	**0.9**	**1.8**
Net book value				
Cost or valuation		0.9	2.0	2.9
Accumulated depreciation		–	(1.2)	(1.2)
At 31 December 2012		0.9	0.8	1.7

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

The historic cost of the artwork in the Group at 31 December 2013 was £1.5m (2012: £1.5m) and £0.9m (2012: £0.9m) in the Company. See note 18 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

20 Investments

Group

The Group has a 50% interest in the joint venture, Primister Limited and a 25% interest and 50% voting rights in the joint venture, Euro Mall Sterboholy a.s..

	2013 £m	2012 £m
At 1 January	**10.2**	9.7
Additions	**0.1**	0.1
Distributions received	**(1.2)**	(0.7)
Share of results of joint ventures (see note 10)	**0.8**	1.1
Transfer to non-current assets held for sale	**(4.8)**	–
At 31 December	**5.1**	10.2

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture companies.

	2013 £m	2012 £m
Non-current assets	**8.0**	20.5
Current assets	**0.3**	1.3
Current liabilities	**(0.2)**	(3.4)
Non-current liabilities	**(3.0)**	(8.2)
Net assets	**5.1**	10.2
Income	**3.8**	2.9
Expenses	**(3.0)**	(1.8)
Profit for the year	**0.8**	1.1

Company

	Subsidiaries £m
Shares in subsidiaries	
At 1 January 2012	837.2
Additions	3.3
Impairment reversal	71.6
At 31 December 2012	912.1
Additions	33.6
Disposals	(3.3)
Impairment	(43.3)
At 31 December 2013	**899.1**

At 31 December 2013 and 31 December 2012, the carrying value of the investment in London Merchant Securities Ltd 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 recoverable amount is the net asset value of the subsidiaries. Principally due to the dividends paid by the subsidiaries in the year, there has been a decrease in the net asset value of the subsidiaries which has been reflected as an impairment in the Company income statement of £43.3m. In 2012, there was an increase in the net asset value of the subsidiaries mainly as a result of the valuation movement in investment properties, which was reflected as an impairment reversal in the Company income statement of £71.6m. All of the impairment in 2013 and impairment reversal in 2012 related to the investment in London Merchant Securities Ltd.

21 Other receivables (non-current)

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Accrued income	**66.4**	55.5	**–**	–
Other	**5.7**	5.4	**–**	–
	72.1	60.9	**–**	–

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

22 Trade and other receivables

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Trade receivables	**11.2**	8.6	**–**	–
Amounts owed by subsidiaries	**–**	–	**1,206.7**	791.3
Other receivables	**15.4**	13.3	**0.1**	0.1
Prepayments	**15.2**	14.8	**0.8**	0.4
Sales and social security taxes	**3.3**	5.9	**0.8**	0.5
Accrued income	**8.4**	8.2	**0.2**	0.1
	53.5	50.8	**1,208.6**	792.4

	2013 £m	2012 £m
Group trade receivables are split as follows:		
less than three months due	**11.1**	8.4
between three and six months due	**0.1**	0.2
	11.2	8.6

Group trade receivables includes a provision for bad debts as follows:

	2013 £m	2012 £m
At 1 January	**0.6**	0.5
Additions	**0.3**	0.3
Released	**(0.2)**	(0.2)
At 31 December	**0.7**	0.6
The provision for bad debts is split as follows:		
less than six months due	**0.5**	0.6
between six and twelve months due	**0.2**	–
	0.7	0.6

None of the amounts included in other receivables are past due and therefore no ageing has been shown.

23 Non-current assets held for sale

	2013 £m	2012 £m
Investment properties (see note 18)	**–**	16.5
Investments	**4.8**	–
	4.8	16.5

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

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

As a result, this investment and these properties were recognised as non-current assets held for sale at 31 December 2013 and 31 December 2012, respectively, in accordance with IFRS 5 Non-current Assets Held for Sale. See note 18 for the historic cost of the properties included within non-current assets held for sale.

24 Trade and other payables

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Trade payables	**8.9**	7.9	**1.3**	6.1
Amounts owed to subsidiaries	**–**	–	**269.2**	89.9
Other payables	**10.5**	10.6	**0.7**	0.7
Accruals	**28.1**	25.7	**11.2**	10.9
Deferred income	**36.1**	36.3	**0.4**	0.1
	83.6	80.5	**282.8**	107.7

25 Provisions

	Cash-settled share options £m	Deferred bonus shares £m	Onerous contract £m	National insurance on share-based payments £m	Total £m
Group					
At 1 January 2013	0.9	0.4	–	1.2	2.5
Provided in the income statement	0.3	–	–	1.0	1.3
Provided in reserves	–	0.2	–	–	0.2
Utilised in year	(0.3)	(0.4)	–	(0.9)	(1.6)
At 31 December 2013	**0.9**	**0.2**	**–**	**1.3**	**2.4**
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.2	–	0.5	0.7
	0.9	**0.2**	**–**	**1.3**	**2.4**
At 1 January 2012	1.0	–	0.3	0.8	2.1
Provided in the income statement	0.6	–	–	1.0	1.6
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	(0.7)	–	(0.3)	(0.6)	(1.6)
At 31 December 2012	0.9	0.4	–	1.2	2.5
Due within one year	0.9	–	–	0.8	1.7
Due after one year	–	0.4	–	0.4	0.8
	0.9	0.4	–	1.2	2.5
Company					
At 1 January 2013	–	0.4	–	1.0	1.4
Provided in the income statement	–	–	–	1.0	1.0
Provided in reserves	–	0.2	–	–	0.2
Utilised in year	–	(0.4)	–	(0.8)	(1.2)
At 31 December 2013	**–**	**0.2**	**–**	**1.2**	**1.4**
Due within one year	–	–	–	0.7	0.7
Due after one year	–	0.2	–	0.5	0.7
	–	**0.2**	**–**	**1.2**	**1.4**
At 1 January 2012	–	–	0.3	0.7	1.0
Provided in the income statement	–	–	–	0.9	0.9
Provided in reserves	–	0.4	–	–	0.4
Utilised in year	–	–	(0.3)	(0.6)	(0.9)
At 31 December 2012	–	0.4	–	1.0	1.4
Due within one year	–	–	–	0.6	0.6
Due after one year	–	0.4	–	0.4	0.8
	–	0.4	–	1.0	1.4

The potential liability for cash-settled share options is based on the valuation carried out at each balance sheet date (see note 14). Provisions are also made for those parts of the executive Directors' bonuses which are to be deferred in shares (see report of the Remuneration Committee on pages 92 to 109).

The onerous contract, which was settled in 2012, reflected the discounted present value of future net payments (the excess of rent payable over rent receivable) under a lease at the Group's previous head office which was due to expire in August 2014.

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; and
- the prevailing rate of national insurance at the date of exercise.

26 Borrowings and derivative financial instruments

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Non-current liabilities				
2.75% unsecured convertible bonds 2016	**167.7**	165.0	**–**	–
1.125% unsecured convertible bonds 2019	**135.0**	–	**–**	–
6.5% secured bonds 2026	**190.6**	191.4	**–**	–
3.99% secured loan 2024	**81.8**	81.7	**81.8**	81.7
Secured bank loans	**97.3**	432.2	**69.3**	404.2
Unsecured bank loan	**281.1**	–	**281.1**	–
Intercompany loans	**–**	–	**302.7**	165.0
Gross debt	**953.5**	870.3	**734.9**	650.9
Leasehold liabilities	**8.2**	8.9	**–**	–
Borrowings	**961.7**	879.2	**734.9**	650.9
Derivative financial instruments expiring in greater than one year	**15.9**	54.3	**13.9**	50.2
Borrowings and derivative financial instruments	**977.6**	933.5	**748.8**	701.1
Reconciliation of borrowings to net debt:				
Borrowings	**961.7**	879.2	**734.9**	650.9
Cash and cash equivalents	**(12.5)**	(4.4)	**(10.9)**	(1.2)
Net debt	**949.2**	874.8	**724.0**	649.7

2.75% unsecured convertible bonds 2016

In June 2011 the Group issued its first convertible bond. The unsecured instrument pays a coupon of 2.75% until July 2016 or its conversion date, if earlier. 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 was determined using the market interest rate for an equivalent non-convertible bond, deemed to be 3.99%. As a result, £165.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £9.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value has been amortised through the income statement from the date of issue. Issue costs of £4.8m were allocated between equity and debt and the element relating to the debt component has been amortised over the life of the bond. The issue costs apportioned to equity of £0.2m have not been amortised. The fair value was determined by the ask-price of £122.34 per £100 as at 31 December 2013 (2012: £113.03 per £100). The carrying value at 31 December 2013 was £167.7m (2012: £165.0m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(9.6)
Debt component on issue	165.4
Unamortised issue costs	(2.3)
Amortisation of fair value adjustment	4.6
Carrying amount included in borrowings	167.7

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 £100.48 per £100 as at 31 December 2013. The carrying value at 31 December 2013 was £135.0m.

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	(3.2)
Amortisation of fair value adjustment	0.8
Carrying amount included in borrowings	135.0

26 Borrowings and derivative financial instruments (continued)

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 issue costs. This difference between fair value and principal value is being amortised through the income statement. The fair value was determined by the ask-price of £113.72 per £100 as at 31 December 2013 (2012: £122.28 per £100). The carrying value at 31 December 2013 was £190.6m (2012: £191.4m).

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 a prevailing market gilt. 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 2013 was £81.8m (2012: £81.7m).

Bank borrowings

The Group refinanced the majority of its bank loans in the open market in September 2013. The margin charged on the new £550m facility is similar to the margin charged on the bank facilities not refinanced. 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 2013	**–**	**–**	**–**	**20.0**	**263.0**	**–**	**283.0**
At 31 December 2012	2.5	0.5	134.0	–	196.0	–	333.0
Company							
At 31 December 2013	**–**	**–**	**–**	**20.0**	**263.0**	**–**	**283.0**
At 31 December 2012	2.5	0.5	134.0	–	196.0	–	333.0

Long-term intercompany loans

The terms of the long-term 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 loan have been accounted for separately, and the fair values of the debt components are identical to that of the bonds. The carrying value at 31 December 2013 was £302.7m (2012: £165.0m).

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 2013 for the period to the contracted expiry dates.

During the year, the Group entered into a £70m forward starting interest rate swap effective 30 June 2014. The Group also has an additional £65m forward starting interest rate swap effective from 25 April 2014. These swaps are not included in the 31 December 2013 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 2013						
Interest rate swaps	218.0	3.09	4.8	190.0	3.03	4.8
At 31 December 2012						
Interest rate swaps	368.0	3.60	5.8	340.0	3.61	5.7

Secured and unsecured debt

	Group 2013 £m	2012 £m	**Company 2013 £m**	2012 £m
Secured				
6.5% secured bonds 2026	**190.6**	191.4	**–**	–
3.99% secured loan 2024	**81.8**	81.7	**81.8**	81.7
Secured bank loans	**97.3**	432.2	**69.3**	404.2
	369.7	705.3	**151.1**	485.9
Unsecured				
2.75% unsecured convertible bonds 2016	**167.7**	165.0	**–**	–
1.125% unsecured convertible bonds 2019	**135.0**	–	**–**	–
Unsecured bank loan	**281.1**	–	**281.1**	–
Long-term intercompany loans	**–**	–	**302.7**	165.0
	583.8	165.0	**583.8**	165.0
Gross debt	**953.5**	870.3	**734.9**	650.9

At 31 December 2013, the Group's secured bank loans and the 3.99% secured loan 2024 were secured by a fixed charge over £380.2m (2012: £1,510.6m) and £194.8m (2012: £174.5m), respectively, of the Group's properties. In addition, the 2026 bonds were secured by a floating charge over a number of the Group's subsidiary companies which contain £634.1m (2012: £521.0m) of the Group's properties.

At 31 December 2013, the Company's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £268.2m (2012: £1,409.0m) and £194.8m (2012: £174.5m), respectively, of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2013 and 2012, the Group's fixed rate and hedged debt included the secured bonds 2026, the unsecured convertible bonds 2016, a secured loan 2024 and the hedged bank debt. Additionally, at 31 December 2013, it also comprised additional unsecured convertible bonds maturing in 2019 which were issued during the year. At 31 December 2013 and 31 December 2012, the Company's fixed rate debt comprised the instruments used to hedge its floating rate debt and the long-term 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 %	Weighted average life Years
Group						
At 31 December 2013						
2.75% unsecured convertible bonds 2016[1]	–	–	167.7	167.7	3.99	2.5
1.125% unsecured convertible bonds 2019[2]	–	–	135.0	135.0	2.67	5.6
6.5% secured bonds 2026[1]	–	–	190.6	190.6	6.50	12.2
3.99% secured loan 2024	–	–	81.8	81.8	3.99	10.8
Secured bank loans	–	97.3	–	97.3	4.63	4.1
Unsecured bank loan	163.6	117.5	–	281.1	3.32	4.7
	163.6	214.8	575.1	953.5	4.10	6.3
At 31 December 2012						
2.75% unsecured convertible bonds 2016[1]	–	–	165.0	165.0	3.99	3.5
6.5% secured bonds 2026[1]	–	–	191.4	191.4	6.50	13.2
3.99% secured loan 2024	–	–	81.7	81.7	3.99	11.8
Secured bank loans	64.2	368.0	–	432.2	4.77	3.1
	64.2	368.0	438.1	870.3	4.88	6.1
Company						
At 31 December 2013						
3.99% secured loan 2024	–	–	81.8	81.8	3.99	10.8
Secured bank loan	–	69.3	–	69.3	4.74	4.0
Unsecured bank loan	163.6	117.5	–	281.1	3.32	4.7
Intercompany loans	–	–	302.7	302.7	3.38	3.9
	163.6	186.8	384.5	734.9	3.55	5.0
At 31 December 2012						
3.99% secured loan 2024	–	–	81.7	81.7	3.99	11.8
Secured bank loans	64.2	340.0	–	404.2	4.79	3.0
Intercompany loan	–	–	165.0	165.0	3.99	3.5
	64.2	340.0	246.7	650.9	4.48	4.2

[1] The weighted average costs of debt for the secured bonds and the unsecured convertible bonds 2016 are based on the nominal amounts of £175m.
[2] The weighted average cost of debt for the unsecured convertible bonds 2019 is based on the nominal amount of £150m.

26 Borrowings and derivative financial instruments (continued)

Anticipated 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 anticipated 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 2013							
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
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loans	–	–	–	70.0	28.0	–	98.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Total on maturity	–	–	175.0	70.0	315.0	408.0	968.0
Leasehold liabilities	0.5	0.5	0.5	0.5	0.5	62.3	64.8
Interest on gross debt	30.8	33.8	34.9	34.4	27.7	102.1	263.7
Effect of interest rate swaps	6.7	5.2	2.2	0.1	(0.7)	(0.7)	12.8
Gross loan commitments	**38.0**	**39.5**	**212.6**	**105.0**	**342.5**	**571.7**	**1,309.3**
At 31 December 2012							
2.75% unsecured convertible bonds 2016	–	–	–	175.0	–	–	175.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loans	–	124.5	91.0	–	194.0	28.0	437.5
Total on maturity	–	124.5	91.0	175.0	194.0	286.0	870.5
Leasehold liabilities	0.7	0.7	0.7	0.7	0.7	62.6	66.1
Interest on gross debt	19.1	18.9	19.2	17.6	14.7	108.6	198.1
Effect of interest rate swaps	13.2	13.8	12.5	10.2	8.1	7.2	65.0
Gross loan commitments	33.0	157.9	123.4	203.5	217.5	464.4	1,199.7

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 2013						
Maturing in:						
< 1 year	38.0	(30.8)	(6.7)	(0.5)	–	–
1 to 2 years	39.5	(33.8)	(5.2)	(0.5)	–	–
2 to 3 years	212.6	(34.9)	(2.2)	(0.5)	(7.3)	167.7
3 to 4 years	105.0	(34.4)	(0.1)	(0.5)	(0.6)	69.4
4 to 5 years	342.5	(27.7)	0.7	(0.5)	(6.0)	309.0
> 5 years	571.7	(102.1)	0.7	(54.1)	(0.6)	415.6
	1,309.3	**(263.7)**	**(12.8)**	**(56.6)**	**(14.5)**	**961.7**
At 31 December 2012						
Maturing in:						
< 1 year	33.0	(19.1)	(13.2)	(0.7)	–	–
1 to 2 years	157.9	(18.9)	(13.8)	(0.7)	(0.3)	124.2
2 to 3 years	123.4	(19.2)	(12.5)	(0.7)	(1.2)	89.8
3 to 4 years	203.5	(17.6)	(10.2)	(0.7)	(10.0)	165.0
4 to 5 years	217.5	(14.7)	(8.1)	(0.7)	(3.8)	190.2
> 5 years	464.4	(108.6)	(7.2)	(53.7)	15.1	310.0
	1,199.7	(198.1)	(65.0)	(57.2)	(0.2)	879.2

	< 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 2013							
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loan	–	–	–	70.0	–	–	70.0
Unsecured bank loan	–	–	–	–	287.0	–	287.0
Long-term intercompany loans	–	–	175.0	–	–	150.0	325.0
Total on maturity	–	–	175.0	70.0	287.0	233.0	765.0
Interest on debt	18.9	21.8	22.6	22.0	15.8	20.2	121.3
Effect of interest rate swaps	5.9	4.6	1.9	(0.1)	(0.8)	(0.7)	10.8
Gross loan commitments	**24.8**	**26.4**	**199.5**	**91.9**	**302.0**	**252.5**	**897.1**
At 31 December 2012							
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Secured bank loans	–	124.5	91.0	–	194.0	–	409.5
Long-term intercompany loan	–	–	–	175.0	–	–	175.0
Total on maturity	–	124.5	91.0	175.0	194.0	83.0	667.5
Interest on debt	7.5	7.4	7.5	5.9	2.9	17.0	48.2
Effect of interest rate swaps	12.4	13.0	11.7	9.5	7.5	6.7	60.8
Gross loan commitments	19.9	144.9	110.2	190.4	204.4	106.7	776.5

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 2013						
Maturing in:						
< 1 year	24.8	(18.9)	(5.9)	–	–	–
1 to 2 years	26.4	(21.8)	(4.6)	–	–	–
2 to 3 years	199.5	(22.6)	(1.9)	–	(7.3)	167.7
3 to 4 years	91.9	(22.0)	0.1	–	(0.6)	69.4
4 to 5 years	302.0	(15.8)	0.8	–	(5.9)	281.1
> 5 years	252.5	(20.2)	0.7	–	(16.3)	216.7
	897.1	**(121.3)**	**(10.8)**	**–**	**(30.1)**	**734.9**
At 31 December 2012						
Maturing in:						
< 1 year	19.9	(7.5)	(12.4)	–	–	–
1 to 2 years	144.9	(7.4)	(13.0)	–	(0.3)	124.2
2 to 3 years	110.2	(7.5)	(11.7)	–	(1.2)	89.8
3 to 4 years	190.4	(5.9)	(9.5)	–	(10.0)	165.0
4 to 5 years	204.4	(2.9)	(7.5)	–	(3.8)	190.2
> 5 years	106.7	(17.0)	(6.7)	–	(1.3)	81.7
	776.5	(48.2)	(60.8)	–	(16.6)	650.9

26 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.

	2013 Receivable £m	2013 Payable £m	2012 Receivable £m	2012 Payable £m
Group				
Maturing in:				
< 1 year	**2.4**	**(9.1)**	2.3	(15.5)
1 to 2 years	**5.6**	**(10.8)**	2.7	(16.6)
2 to 3 years	**8.6**	**(10.8)**	3.8	(16.3)
3 to 4 years	**10.0**	**(10.1)**	4.8	(14.9)
4 to 5 years	**8.1**	**(7.4)**	6.0	(14.1)
> 5 years	**7.6**	**(6.9)**	10.9	(18.1)
Gross contractual cash flows	**42.3**	**(55.1)**	30.5	(95.5)
Company				
Maturing in:				
< 1 year	**2.2**	**(8.1)**	2.1	(14.5)
1 to 2 years	**5.2**	**(9.8)**	2.6	(15.6)
2 to 3 years	**7.9**	**(9.8)**	3.6	(15.3)
3 to 4 years	**9.2**	**(9.1)**	4.4	(13.9)
4 to 5 years	**7.2**	**(6.4)**	5.6	(13.1)
> 5 years	**7.4**	**(6.7)**	10.2	(16.9)
Gross contractual cash flows	**39.1**	**(49.9)**	28.5	(89.3)

Financial instruments – risk management

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

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

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 28 to 32 and page 83.

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

The Company has the same risk profile as the Group (except tenant credit risk, which does not exist in the Company) and therefore no separate analysis has been provided in relation to the Company.

Principal financial instruments

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

General objectives, policies and processes

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

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

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

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time. The 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 22.

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

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

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

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

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in this note). The Group generally raises long-term borrowings at fixed rates.

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

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

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

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

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio. During 2013, the Group's strategy, which was unchanged from 2012, was to maintain the NAV gearing below 80% in normal circumstances. The four gearing ratios are defined on page 166 and are derived in note 28.

27 Financial assets and liabilities

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	–	12.5	–	12.5
Other assets – current[1]	–	35.0	–	35.0
	–	47.5	–	47.5
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(167.7)	(167.7)
1.125% unsecured convertible bonds 2019	–	–	(135.0)	(135.0)
6.5% secured bonds 2026	–	–	(190.6)	(190.6)
3.99% secured loan 2024	–	–	(81.8)	(81.8)
Bank borrowings due after one year	–	–	(378.4)	(378.4)
Leasehold liabilities	–	–	(8.2)	(8.2)
Derivative financial instruments	(15.9)	–	–	(15.9)
Other liabilities – current[2]	–	–	(47.5)	(47.5)
	(15.9)	–	(1,009.2)	(1,025.1)
At 31 December 2013	**(15.9)**	**47.5**	**(1,009.2)**	**(977.6)**
Financial assets				
Cash and cash equivalents	–	4.4	–	4.4
Other assets – current[1]	–	30.1	–	30.1
	–	34.5	–	34.5
Financial liabilities				
2.75% unsecured convertible bonds 2016	–	–	(165.0)	(165.0)
6.5% secured bonds 2026	–	–	(191.4)	(191.4)
3.99% secured loan 2024	–	–	(81.7)	(81.7)
Bank borrowings due after one year	–	–	(432.2)	(432.2)
Leasehold liabilities	–	–	(8.9)	(8.9)
Derivative financial instruments	(54.3)	–	–	(54.3)
Other liabilities – current[2]	–	–	(44.2)	(44.2)
	(54.3)	–	(923.4)	(977.7)
At 31 December 2012	(54.3)	34.5	(923.4)	(943.2)
Company				
Financial assets				
Cash and cash equivalents	–	10.9	–	10.9
Other assets – current[1]	–	1,207.0	–	1,207.0
	–	1,217.9	–	1,217.9
Financial liabilities				
3.99% secured loan 2024	–	–	(81.8)	(81.8)
Bank borrowings due after one year	–	–	(350.4)	(350.4)
Long-term intercompany loans	–	–	(302.7)	(302.7)
Derivative financial instruments	(13.9)	–	–	(13.9)
Other liabilities – current[2]	–	(269.2)	(13.2)	(282.4)
	(13.9)	(269.2)	(748.1)	(1,031.2)
At 31 December 2013	**(13.9)**	**948.7**	**(748.1)**	**186.7**
Financial assets				
Cash and cash equivalents	–	1.2	–	1.2
Other assets – current[1]	–	791.5	–	791.5
	–	792.7	–	792.7
Financial liabilities				
3.99% secured loan 2024	–	–	(81.7)	(81.7)
Bank borrowings due after one year	–	–	(404.2)	(404.2)
Long-term intercompany loan	–	–	(165.0)	(165.0)
Derivative financial instruments	(50.2)	–	–	(50.2)
Other liabilities – current[2]	–	(89.9)	(17.7)	(107.6)
	(50.2)	(89.9)	(668.6)	(808.7)
At 31 December 2012	(50.2)	702.8	(668.6)	(16.0)

[1] Other assets includes all amounts shown as trade and other receivables in note 22 except prepayments and sales and social security taxes of £18.5m (2012: £20.7m) for the Group and £1.6m (2012: £0.9m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] Other liabilities for the Group include all amounts shown as trade and other payables in note 24 except deferred income of £36.1m (2012: £36.3m) and £0.4m (2012: £0.1m) 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 2013 £m	2012 £m	Company 2013 £m	2012 £m
Net financial assets and liabilities	**(977.6)**	(943.2)	**186.7**	(16.0)
Other assets – current	**(35.0)**	(30.1)	**(1,207.0)**	(791.5)
Other liabilities – current	**47.5**	44.2	**282.4**	107.6
Cash and cash equivalents	**(12.5)**	(4.4)	**(10.9)**	(1.2)
Borrowings and derivative financial instruments	**(977.6)**	(933.5)	**(748.8)**	(701.1)

Fair value measurement

IFRS 13 Fair Value Measurement requires a quantitative analysis of fair values based on a three-level hierarchy.

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 26.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2013					
2.75% unsecured convertible bonds 2016	(167.7)	(204.5)	–	–	Level 1
1.125% unsecured convertible bonds 2019	(135.0)	(138.1)	–	–	Level 1
6.5% secured bonds 2026	(190.6)	(199.0)	–	–	Level 1
3.99% secured loan 2024	(81.8)	(74.3)	(81.8)	(74.3)	Level 2
Bank borrowings due after one year	(378.4)	(385.0)	(350.4)	(356.9)	Level 2
Long-term intercompany loan	–	–	(302.7)	(342.6)	Level 2
Derivative financial instruments	(15.9)	(15.9)	(13.9)	(13.9)	Level 2
	(969.4)	(1,016.8)	(748.8)	(787.7)	
Amounts not fair valued:					
Cash and cash equivalents	12.5		10.9		
Other assets – current	35.0		1,207.0		
Leasehold liabilities	(8.2)		–		
Other liabilities – current	(47.5)		(282.4)		
Net financial assets and liabilities	**(977.6)**		**186.7**		
At 31 December 2012					
2.75% unsecured convertible bonds 2016	(165.0)	(188.2)	–	–	Level 1
6.5% secured bonds 2026	(191.4)	(214.0)	–	–	Level 1
3.99% secured loan 2024	(81.7)	(82.0)	(81.7)	(82.0)	Level 2
Bank borrowings due after one year	(432.2)	(437.5)	(404.2)	(409.5)	Level 2
Long-term intercompany loan	–	–	(165.0)	(188.2)	Level 2
Derivative financial instruments	(54.3)	(54.3)	(50.2)	(50.2)	Level 2
	(924.6)	(976.0)	(701.1)	(729.9)	
Amounts not fair valued:					
Cash and cash equivalents	4.4		1.2		
Other assets – current	30.1		791.5		
Leasehold liabilities	(8.9)		–		
Other liabilities – current	(44.2)		(107.6)		
Net financial assets and liabilities	(943.2)		(16.0)		

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

28 Gearing

NAV gearing

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

28 Gearing (continued)

Loan-to-value ratio

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

Gross interest cover ratio

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

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

Net interest cover ratio

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

29 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2013	4.1	(4.6)	(0.5)
Provided during the year in other comprehensive income	0.2	–	0.2
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
Provided/(released) during the year in the income statement	1.6	(0.3)	1.3
Change in tax rates in the income statement	(0.3)	0.4	0.1
At 31 December 2013	**5.5**	**(4.5)**	**1.0**
At 1 January 2012	8.8	(3.6)	5.2
Released during the year in other comprehensive income	(0.2)	–	(0.2)
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
Released during the year in the income statement	(3.8)	(1.3)	(5.1)
Change in tax rates in the income statement	(0.6)	0.3	(0.3)
At 31 December 2012	4.1	(4.6)	(0.5)
Company			
At 1 January 2013	–	(4.3)	(4.3)
Provided during the year in the income statement	–	(0.4)	(0.4)
Change in tax rates	–	0.4	0.4
At 31 December 2013	**–**	**(4.3)**	**(4.3)**
At 1 January 2012	–	(3.3)	(3.3)
Provided during the year in the income statement	–	(1.3)	(1.3)
Change in tax rates in the income statement	–	0.3	0.3
At 31 December 2012	–	(4.3)	(4.3)

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

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

30 Equity

The authorised share capital was £6.04m at 1 January 2012, 31 December 2012 and 31 December 2013. The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 92 to 109 and note 14. 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 2012	101,640,982
Issued as a result of scrip dividends	109,416
Issued as a result of awards vesting under the Group's Performance Share Plan	204,508
Issued as a result of the exercise of share options[1]	59,325
At 31 December 2012	102,014,231
Issued as a result of scrip dividends	197,368
Issued as a result of awards vesting under the Group's Performance Share Plan	232,918
Issued as a result of the exercise of share options[1]	33,065
At 31 December 2013	**102,477,582**

[1] Proceeds from these issues were £0.4m (2012: £0.4m).

31 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). The Company balance also includes its impairment of the investment in LMS.
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and long-term 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.

Other reserves

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Merger reserve	**910.5**	910.5	**625.0**	668.3
Revaluation reserve	**11.7**	9.9	**–**	–
Equity portion of the convertible bonds	**21.7**	9.4	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**21.7**	9.4
Fair value of equity instruments under share-based payments	**4.7**	4.2	**4.7**	4.2
	948.6	934.0	**651.4**	681.9

32 Profit for the year attributable to members of Derwent London plc

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. Profit for the year includes a profit of £205.6m (2012: £128.5m) which has been dealt with in the accounts of the Company.

33 Dividends

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

34 Cash and cash equivalents

	Group 2013 £m	2012 £m	Company 2013 £m	2012 £m
Cash at bank	**12.5**	4.4	**10.9**	1.2

35 Total return

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

36 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2013 and not provided for in the accounts amounted to £43.0m (2012: £78.4m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties. At 31 December 2013 and 31 December 2012, there were no obligations for the purchase, repair or maintenance of investment properties.

37 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2013 and 31 December 2012, 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.

38 Leases

	2013 £m	2012 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**122.3**	124.1
later than one year and not later than five years	**411.1**	438.9
later than five years	**658.6**	809.4
	1,192.0	1,372.4

	2013 £m	2012 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**0.5**	0.7
later than one year and not later than five years	**2.0**	2.8
later than five years	**62.3**	62.6
	64.8	66.1
Future contingent rent payable on finance leases	**(17.0)**	(17.6)
Future finance charges on finance leases	**(39.6)**	(39.6)
Present value of finance lease liabilities	**8.2**	8.9
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**–**	0.5
later than five years	**8.2**	8.4
	8.2	8.9

In accordance with IAS 17 Leases, the minimum lease payments are allocated as follows:

	2013 £m	2012 £m
Finance charge	**0.5**	0.4
Contingent rent	**0.4**	0.5
Total	**0.9**	0.9

The Group has nearly 750 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 2013 was 13.8 years (2012: 13.5 years). Of these leases, on a weighted average basis, 90% (2012: 94%) included a rent free or half rent period.

39 Post balance sheet events

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

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

40 Principal operating companies

The principal operating companies within the Group at 31 December 2013 were:

	Ownership	Principal activity
Subsidiaries		
22 Kingsway Limited[1]	100%	Property investment
BBR Property Limited[1]	100%	Property trading
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Charlotte Street Limited[1]	100%	Property trading
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Caledonian Properties Limited	100%	Property investment
Derwent London Capital (Jersey) Limited[1]	100%	Finance company
Derwent London Capital No. 2 (Jersey) Limited[1]	100%	Finance company
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited[1]	100%	Holding company

[1] Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

Joint ventures		
Primister Limited	50%	Property investment
Euro Mall Sterboholy a.s.	25%	Property investment

The Company has taken advantage of the exemption in s410 of the Companies Act 2006 only to disclose a list comprising solely the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

The Company controls 50% of the voting rights of each of the joint ventures. All are accounted for and disclosed in accordance with IAS 31 Interests in Joint Ventures.

All of the above companies are registered and operate in England and Wales except for Euro Mall Sterboholy a.s., which is registered in the Czech Republic and Derwent London Capital (Jersey) Limited, Derwent London Capital No. 2 (Jersey) Limited and 22 Kingsway Limited which are registered in Jersey.

41 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 92 to 109 and note 12. 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 (2012: £0.3m). The Group also contributed £0.1m (2012: £0.1m) to LMS Capital plc's running costs.

There are no outstanding balances owed to the Group with respect to all of the above transactions.

At 31 December 2013, included within other receivables in note 22 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £15.1m (2012: £12.6m). The majority of this amount represents advances to the Portman Estate, relating to proceeds received upon the disposal of jointly owned properties. This debt will be discharged by a distribution to shareholders.

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest (payable)/receivable		Dividend received		Balance owed/(owing)	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Related party						
22 Kingsway Limited	**–**	–	**–**	–	**25.3**	–
BBR Property Limited	**0.4**	–	**–**	–	**14.6**	–
Derwent Central Cross Limited	**7.9**	7.7	**–**	–	**169.4**	151.5
Derwent Henry Wood Limited	**2.4**	2.6	**–**	–	**49.0**	49.1
Derwent London Capital (Jersey) Limited[1]	**(6.6)**	(6.5)	**–**	–	**(167.6)**	(164.9)
Derwent London Capital No. 2 (Jersey) Limited[2]	**(1.6)**	–	**–**	–	**(134.9)**	–
Derwent London Charlotte Street Limited	**0.1**	–	**–**	–	**8.7**	–
Derwent London Grafton Limited	**1.8**	1.0	**–**	–	**35.4**	37.7
Derwent London Howland Limited	**6.4**	3.4	**–**	–	**128.3**	128.1
Derwent London Page Street Limited	**0.9**	0.1	**–**	–	**21.0**	6.7
Derwent Valley Central Limited	**(0.3)**	3.8	**–**	100.0	**100.0**	207.4
Derwent Valley London Limited	**5.9**	5.8	**20.0**	–	**143.2**	114.9
Derwent Valley Property Developments Limited	**(1.3)**	4.3	**–**	–	**93.2**	96.0
Derwent Valley Property Investments Limited	**(4.0)**	(3.9)	**30.0**	–	**(53.6)**	(77.5)
Derwent Valley Railway Company[3]	**–**	–	**–**	–	**(0.2)**	(0.2)
Derwent Valley West End Limited	**–**	–	**–**	–	**(0.1)**	–
London Merchant Securities Limited[4]	**7.7**	(3.1)	**210.0**	–	**203.1**	(12.4)
	19.7	15.2	**260.0**	100.0	**634.8**	536.4

[1] The payable balance at 31 December 2013 includes the long-term intercompany loan of £167.7m (2012: £165.0m) included in note 26.
[2] The payable balance at 31 December 2013 includes the long-term intercompany loan of £135.0m (2012: £nil) included in note 26.
[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 long-term loans from Derwent London Capital (Jersey) Limited and 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.

42 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.

Subsidiary undertakings are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences and until the date 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 IAS 31 Interests in Joint Ventures, and following the procedures for this method set out in IAS 28 Investments in Associates. 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.

Employee benefits

(i) Share-based remuneration

(a) 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 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.

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

Employee benefits (continued)

(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 external 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 it 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.

42 Significant accounting policies (continued)

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.

(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 and any available capital losses.

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

On consolidation, the assets and liabilities of foreign entities are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statement and cash flows are translated at the average rate for the period. Exchange differences arising from the retranslation of long-term monetary items forming part of the Group's net investment in foreign entities are recognised in the foreign exchange reserve on consolidation.

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.

FIVE-YEAR SUMMARY

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Gross property income	**131.6**	124.8	125.5	119.4	123.8
Net property income	**124.3**	117.0	117.7	113.0	114.8
EPRA profit before tax	**57.8**	52.5	52.3	55.2	61.8
Profit/(loss) on disposal of properties and investments	**53.5**	10.8	36.1	0.9	(16.6)
Profit/(loss) before tax	**467.9**	228.1	233.0	352.8	(34.9)
Net assets	**2,370.5**	1,918.0	1,714.5	1,494.7	1,163.9
Property portfolio at fair value	**3,353.1**	2,859.6	2,646.5	2,426.1	1,918.4
Revaluation surplus/(deficit)	**337.5**	175.3	172.1	301.7	(81.1)
Net debt	**949.2**	874.8	864.5	887.8	720.8
Cash flow[1]	**(65.9)**	1.9	18.4	(171.6)	139.5
Net cash inflow from operating activities	**57.5**	52.5	47.2	46.5	66.4
Acquisitions	**130.1**	99.8	91.6	148.0	10.2
Capital expenditure on properties	**108.4**	78.6	42.6	49.5	94.6
Disposals	**149.7**	161.0	131.5	8.5	195.5
EPRA earnings per share (p)	**53.87**	50.36	51.59	52.89	57.14
Underlying earnings per share (p)	**53.87**	49.77	50.01	51.40	50.79
Dividend per share					
IFRS (p)	**34.50**	31.85	29.60	27.60	24.50
Distribution of year earnings (p)	**36.50**	33.70	31.35	29.00	27.00
Net asset value per share (p)	**2,248**	1,824	1,636	1,432	1,117
EPRA net asset value per share (p) – undiluted	**2,286**	1,896	1,712	1,484	1,168
EPRA net asset value per share (p) – diluted	**2,264**	1,886	1,701	1,474	1,161
EPRA triple net asset value per share (p) – diluted	**2,222**	1,764	1,607	1,425	1,126
EPRA total return (%)	**21.9**	12.7	17.4	29.3	(2.9)
Gearing					
NAV (%)	**40.0**	45.6	50.4	59.4	61.9
Loan-to-value ratio (%)	**28.0**	30.0	32.0	35.7	36.4
Gross interest cover ratio (%)	**363**	351	307	328	330
Net interest cover ratio (%)	**279**	263	261	286	280

[1] Cash flow is the net cash from operating and investing activities less the dividends paid.

A list of definitions is provided on pages 166 and 167.

PRINCIPAL PROPERTIES

	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 (62%)				
Fitzrovia[1]/Euston (37%)				
1-2 Stephen Street & Tottenham Court Walk W1	150+	O/R/L	F	255,100
132-142 Hampstead Road NW1	25-50	O	F	217,000
80 Charlotte Street W1	75-150	O	F	200,000
8 Fitzroy Street W1	75-150	O	F	147,900
Qube, 90 Whitfield Street W1	75-150	O/R/Re	F	109,900
Holden House, 54-68 Oxford Street W1	75-150	O/R	F	90,800
Henry Wood House, 3-7 Langham Place W1	50-75	O/R/L	L	79,900
25 and 29 Berners Street W1	25-50	O	L	79,500
Middlesex House, 34-42 Cleveland Street W1	25-50	O	F	64,600
Network Building, 95-100 Tottenham Court Road W1	25-50	O/R	F	64,100
120-134 Tottenham Court Road W1[2]	25-50	R/L	F	53,200
88-94 Tottenham Court Road W1	0-25	O/R	F	52,400
Charlotte Building, 17 Gresse Street W1	25-50	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	34,700
43 and 45-51 Whitfield Street W1	0-25	O	F	31,000
65 Whitfield Street W1	0-25	O	F	30,600
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[3]
76-78 Charlotte Street W1	0-25	O	F	10,800
Victoria (12%)				
Horseferry House, Horseferry Road SW1	75-150	O	F	162,700
Greencoat and Gordon House, Francis Street SW1	75-150	O	F	128,900
1 Page Street SW1	75-150	O	F	127,800
Premier House, 10 Greycoat Place SW1	25-50	O	F	62,000
Francis House, 11 Francis Street SW1	25-50	O	F	57,000
6-8 Greencoat Place SW1	0-25	O	F	33,200
Baker Street/Marylebone (5%)				
19-35 Baker Street W1	50-75	O/R	L	77,800
88-110 George Street W1	25-50	O/R/Re	L	44,800
30 Gloucester Place W1	0-25	O/Re	L	23,600
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	22,100
17-39 George Street W1	0-25	O/R/Re	L	21,400
Soho/Covent Garden (4%)				
Bush House, South West Wing, Strand WC2	0-25	O	F	107,900
Tower House, 10 Southampton Street WC2	50-75	O/R/Re	F	52,700
Davidson Building, 5 Southampton Street WC2	25-50	O/R	F	41,700
Jaeger House, 57 Broadwick Street W1	0-25	O/R	F	24,900
Mayfair (2%)				
25 Savile Row W1	50-75	O/R	F	42,300
Paddington (2%)				
55-65 North Wharf Road W2	25-50	O	L	77,600
Queens, 96-98 Bishop's Bridge Road W2	0-25	Re	F	21,400[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 (8%)				
Angel Building, 407 St. John Street EC1	150+	O/R	F	262,000
4 & 10 Pentonville Road N1	25-50	O	F	55,000
Balmoral Grove Buildings, N7 and 1-9 Market Road N7	0-25	O/I	F	48,900
Suncourt House, 18-26 Essex Road N1	0-25	O/R	F	27,200
35 & 37 Kentish Town Road NW1	0-25	O	F	24,500
423-425 Caledonian Road N7	0-25	O	F	18,300
Ladbroke Grove (1%)				
Portobello Dock and Kensal House W10	0-25	O/R	F	51,600
136-142 Bramley Road W10	0-25	O	F	30,900
City: Borders (26%)				
Clerkenwell (9%)				
88 Rosebery Avenue EC1	25-50	O	F	103,700
Morelands Buildings, 5-27 Old Street EC1	25-50	O/R	L	89,700
The Buckley Building, 49 Clerkenwell Green EC1	75-150	O /R	F	85,100
Turnmill, 63 Clerkenwell Road EC1	25-50	O/R	F	70,500[3]
19 Charterhouse Street EC1	25-50	O	F	63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	0-25	O	F	35,200
151 Rosebery Avenue EC1	0-25	O	F	24,000
3-4 Hardwick Street EC1	0-25	O	F	12,000
Holborn (7%)				
Johnson Building, 77 Hatton Garden EC1	75-150	O/R	F	157,100
40 Chancery Lane WC2	25-50	O/R	L	101,800[3]
22 Kingsway WC2	50-75	O	F	91,400[3]
6-7 St. Cross Street EC1	0-25	O	F	33,800
Old Street (5%)				
1 Oliver's Yard EC2	75-150	O/R	F	186,000
White Collar Factory, City Road EC1	25-50	O/R/Re	F	293,000[3]
Monmouth House, 58-64 City Road EC1	0-25	O	F	41,500
186 City Road EC1	0-25	O	F	38,300
Shoreditch/Whitechapel (5%)				
Tea Building, Shoreditch High Street E1	75-150	O/R/L	F	259,600
9 and 16 Prescot Street E1	0-25	O/R	F	111,000
Mark Square House, 1 Mark Square EC2	25-50	O	F	61,700
Southwark (-)				
Wedge House, 30-40 Blackfriars Road SE1	0-25	O/L	F	38,700
Provincial (3%)				
Scotland (3%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-75	R	F	313,300
Land, Bishopbriggs, Glasgow	25-50	–	F	5,500 acres

[1] Includes North of Oxford Street
[2] Includes a 330-room hotel
[3] Proposed scheme area
[4] Total floor area
[5] Excludes 44,000 sq ft theatre
( ) Percentages weighted by valuation

Tech Belt (30%)

LIST OF DEFINITIONS

Capital return
The annual valuation movement arising on the Group's portfolio expressed as a percentage return on the valuation at the beginning of the year adjusted for acquisitions, disposals 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)
An association of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in August 2011 (www.epra.com/media/EPRA_BPR_2011.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted. In addition, in accordance with EPRA guidelines, Group specific adjustments have been made to adjusted profit and adjusted earnings per share to arrive at the underlying position.

- EPRA earnings per share
  Recurring earnings from core operational activities.
- Underlying profit/earnings per share
  EPRA profit or earnings per share adjusted for items which are excluded to show the underlying trend. For 2012, these adjustments were for rates credits and the foreign exchange movement.
- EPRA net asset value per share
  NAV adjusted to exclude certain items not expected to crystallise in a long-term investment property business model.
- EPRA triple net asset value per share
  EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.
- EPRA net initial yield (NIY)
  Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.
- EPRA 'topped-up' net initial yield
  This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).
- EPRA vacancy rate
  Estimated rental value (ERV) of immediately available space divided by ERV of the EPRA portfolio.
- EPRA like-for-like rental income growth
  The growth in rental income on properties owned throughout the current and previous years under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year, surrender premiums and properties acquired or disposed of in either year.

In July 2013, EPRA published guidance on the calculation of the following cost ratios which the Group has also adopted:

- EPRA cost ratio (including direct vacancy costs)
  EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.
- EPRA cost ratio (excluding direct vacancy costs)
  Calculated as above, but with an adjustment to exclude direct vacancy costs.

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

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

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

Interest cover ratios
- Gross interest cover ratio
  Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable and capitalised interest.
- Net interest cover ratio
  Net property income, excluding other income, net surrender premiums receivable and reverse surrender premiums payable divided by interest payable on borrowings and non-utilisation fees.

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

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

Key Performance Indicators (KPIs)
Activities and behaviours, aligned to both business objectives and individual goals, which measure the Group's performance against appropriate benchmarks.

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

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

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

NAV gearing
Net debt divided by net assets.

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

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

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

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

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

REITs must distribute 90% of UK rental income in the form of property income dividends (PIDs). This makes the tax implications of investing in REITs equivalent to investing directly in property. REITs are also required to meet certain conditions including the proportion of total profits and assets accounted for by their property rental businesses. They remain liable to corporation tax on non-property investment businesses e.g. management fees and interest receivable.

The UK has had a tax exempt real estate regime since 1 January 2007 and Derwent London has been a REIT since 1 July 2007.

Rent reviews
Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Reversion
The reversion is the amount by which the rental value as estimated by the Group's external valuers is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

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

Total property return (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 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 adjusted net asset value per share 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, which the net initial yield will rise to once the rent reaches the estimated rental values.
- True equivalent yield
  The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.
- Yield shift
  A movement in the yield of a property asset, or like-for-like portfolio, over a given year. Yield compression is a commonly-used term for a reduction in yields.

Sustainability and corporate responsibility

Building Research Establishment Environmental Assessment Method (BREEAM)
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.

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.

Greenhouse gas (GHG)
A gas that contributes to the greenhouse effect by absorbing infra-red radiation.

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.

WRAP
WRAP is a not-for-profit organisation which assists organisations to become more efficient in the use of natural resources.

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