Derwent London plc
Report & Accounts 2006

Contents

Derwent London plc, the company's new name following the merger of Derwent Valley Holdings plc and London Merchant Securities plc, is a leading central London office specialist with a combined portfolio valued at over £2.5 billion.

It is a design-led award-winning property company with a reputation for innovative projects incorporating high quality, contemporary architecture which works closely with leading and emerging architects to create interesting solutions to enhance its schemes. The group invests mainly in the West End but also in those newly improving locations where it perceives future value, bringing quality working environments to its tenants and contributing to London's regeneration.

The board's strategy is to add value to buildings and sites through creative planning, imaginative design and enterprising lease management. Through this, the aim is to deliver an above average annualised total return to shareholders.

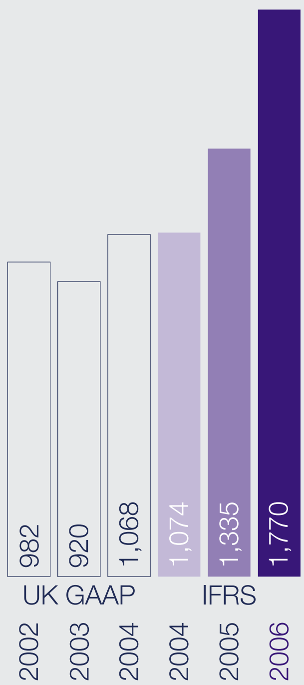
Financial highlights

	2006	2005	Increase/ (decrease) %
Adjusted net property income[1]	£46.4m	£46.6m	(0.4)
Adjusted profit before taxation[2]	£16.4m	£16.7m	(1.8)
Profit before taxation	£242.8m	£150.4m	61.4
Adjusted earnings per share[3]	24.83p	26.23p	(5.3)
Earnings per share	340.13p	218.63p	55.6
Dividend per share			
Distribution of years' earnings	14.75p	13.65p	8.1
IFRS	13.95p	12.825p	8.8
Adjusted net assets per share[4]	1,770p	1,335p	32.6
Net assets per share	1,460p	1,134p	28.7
Total return	33.6%	25.5%	
Gearing			
Balance sheet	44.7%	50.1%	
Profit and loss	1.85	1.84	

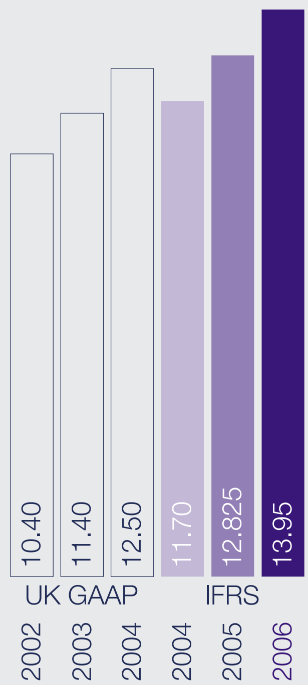
1 Excludes development income.
2 Excludes development income, exceptional items, the revaluation movement on investment properties and financial instruments and the profit on disposal of investment properties.
3 Excludes the revaluation movement on investment properties and the profit on disposal of investment properties together with the related tax effects.
4 Excludes the deferred tax on the revaluation surplus, the post tax fair value of derivative financial instruments and deferred tax in respect of capital allowances claimed.

Five year review

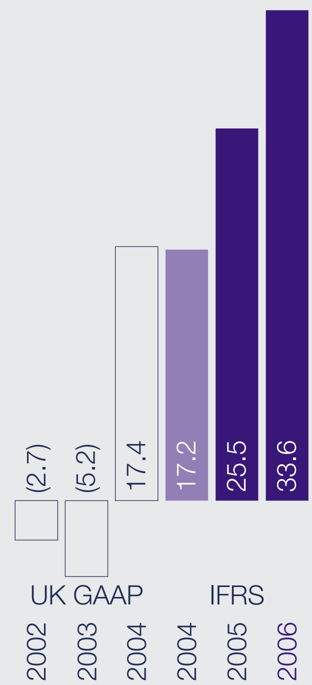
Adjusted net asset value per share
pence



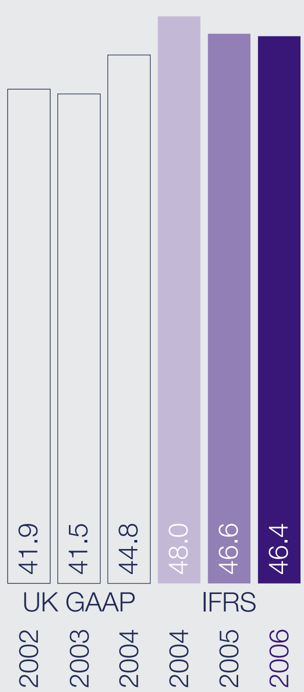
Dividend per share
pence



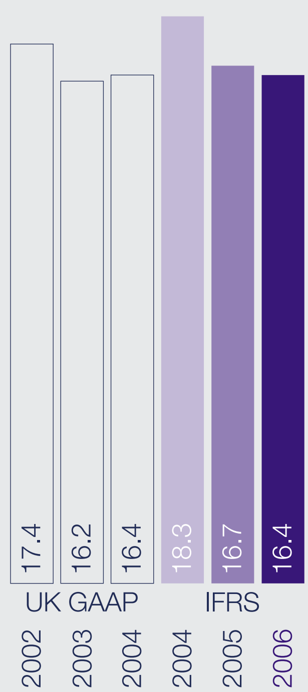
Total return
%



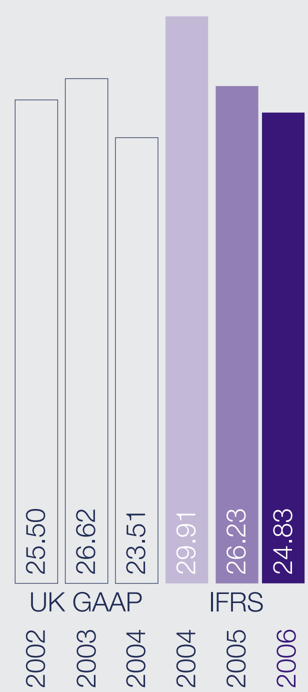
Net property income
£m



Adjusted profit before tax
£m



Adjusted earnings per share
pence



Chairman's statement

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

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

Results overview

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

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

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

Dividends

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

Market review

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

The year was an exceptionally productive one for the group in terms of letting activity, the high points being the successes at its three largest projects. In the first half of the year, Telstar, Paddington, where the group is acting as development manager for Prudential, was pre-let to Rio Tinto. The Johnson Building, Hatton Garden, is now fully let and Horseferry House, Victoria was pre-let to Burberry as its new global headquarters, at a very early stage of its refurbishment. These three transactions, which combined have a floor area of 39,000m^2, demonstrate the high level of demand for the group's product. For Derwent London, continuing this success involves three principal factors that the board believe give a competitive advantage. First, create interesting and design-led space that stands apart. Second, be enterprising and prepared to invest in those London villages that have the essential characteristics necessary for future improvement. Third, target schemes predominantly at the middle market, where rents are in the range of £375–£650m^2. Applying these principles to the merged portfolio, which comprises over 440,000m^2 of space in central London and has a project pipeline of 315,000m^2, should deliver further net asset growth.

Merger

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

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

The Qube
Fitzrovia, W1
10,000m^2 offices/retail
Completion:
Summer 2007

Portobello Dock
Ladbroke Grove, W10
6,400m^2 mixed use
Completion:
Autumn 2007

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

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

The board

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

REITS

The group is planning to elect for REIT status and shareholders will shortly receive a circular convening an EGM to approve the changes to the company's articles of association needed to achieve this. The targeted conversion date is 1st July 2007. Upon conversion, the group will be required to pay a one-off charge calculated at 2% of the group's gross assets. Based on the proforma value of the investment portfolio, the conversion charge would be £46 million.

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

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

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

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

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

Prospects

With yield compression unlikely to contribute significantly to performance, it is encouraging that rental growth in central London, where the portfolio's average rent is only £255 per m^2, looks firmly set to continue. For Derwent London shareholders, the future offers the exciting prospects of REIT status, a portfolio packed with opportunities and a specific focus on central London. I look forward to reporting to you later in the year on the group's progress.

R.A. Rayne
20th March 2007

After a transformational year, Derwent London is now the sixth largest UK listed property company. The future offers the exciting prospects of REIT status, a portfolio packed with opportunities and a specific focus on central London.

Key achievements in 2006 include:

Completion and letting of the 13,900m² Johnson Building, our largest project to date.

Significant West End pre-lets: 15,200m² Horseferry House refurbishment and 9,900m² Telstar new build.

Planning permissions obtained for schemes at Leonard Street and Wedge House.

Charing Cross Road holdings increased through the Astoria acquisition, an important long term development opportunity.

Future projects unlocked at Riverwalk House and Argosy House, following the Crown Estate swap transaction.

A substantially increased development pipeline of 315,000m² following the recent merger.

1 The Qube
Fitzrovia, W1
10,000m² offices/retail
Completion: Summer 2007

2 Portobello Dock
Ladbroke Grove, W10
6,400m² mixed use
Completion: Autumn 2007

3 Horseferry House
Victoria, SW1
15,200m² offices
Completion: Spring 2008

4 Gresse Street
Noho, W1
4,400m² offices
Completion: Spring 2009

5 Leonard Street
City borders, EC2
2,000m² offices and
47 apartments
Completion: Summer 2008

6 Arup phases II & III
Fitzrovia, W1
13,200m² offices
Completion: 2007/2009

7 Wedge House
Southbank, SE1
8,200m² offices
Completion: 2010

8 The Angel Centre
Islington, EC1
20,000m² office refurbishment
Feasibility

Operating review
Going forward

Derwent London is a design-led award-winning property company with a reputation for high quality contemporary architecture and innovative refurbishment. We are working to help reshape central London through inspirational and environmentally responsible design, working with the brightest architects to create desirable spaces to work or live in. Now, with our enlarged portfolio, we are able to increase our commitment to refurbishment and redevelopment within the London villages.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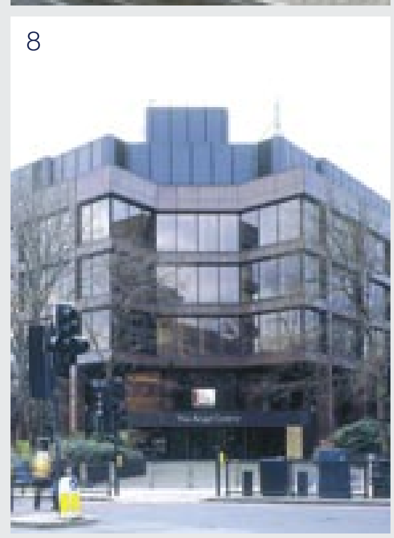
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Operating review

Strategy and performance

Derwent London is a leading commercial property company with a specific focus on central London offices. Our specialist operating areas are the established and prospering 'villages' of the West End and the City borders. The prospects for our market place remain exciting, with London's economic growth leading the country, a trend that is set to continue. In addition, the occupational market is favouring property owners. There is strong demand for offices at a time which coincides with a shortage of available quality space that is being exacerbated by planning bureaucracy. The outcome is an upward movement on rents, particularly in our targeted middle market. With rents between £375–£650 per m^2, this still offers tenants good economic value.

Following the recent merger, the group now has ownership of a £2.5 billion portfolio. Nearly 90% by value is located in our core operating area of central London and provides in excess of 440,000m^2 of accommodation. The West End, which encompasses Victoria, Belgravia, Fitzrovia, Noho, Baker Street, Paddington, Soho and Covent Garden, is the focal area with 69% by value.

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

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

2. **Active lease management to improve rental income.**
   We endeavour to maximise rental income both through the letting of our completed projects and by ensuring that occupancy and income is preserved in buildings earmarked for redevelopment. As an example, at North Wharf Road, Paddington, 2,670m^2 was quickly re-let, following a lease surrender. The new lettings incorporate a number of lease breaks, which give us control over the timing of what is a major redevelopment opportunity.

3. **Maintain a pipeline of projects that can be delivered according to market conditions.**
   Our development team continually instigate and evaluate planning studies to ensure an appropriate supply of schemes. Following the merger, the projects on which we are currently on site total over 59,000m^2, of which 38,000m^2 is pre-let. The total project pipeline is over 315,000m^2 and this places us in a strong position for future value creation.

4. **Deliver, and let projects on time and on cost.**
   Our largest project to date, the 13,900m^2 Johnson Building, was completed on time and on budget and is now fully let. Capital expenditure on various projects during the year totalled £18.7 million, with a further £193 million planned for the enlarged group over the next two years.

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

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

Operating review
Portfolio statistics and performance

	Valuation £m	Weighting %	Valuation performance* %	Number of properties	Floor area m²	Vacant accommodation m²
West End						
Central	891.2	70	21.5	30	131,700	6,900
Outer	55.3	4	9.7	11	21,700	8,800
	946.5	74	20.9	41	153,400	15,700
City						
Outer	336.2	26	23.6	22	88,000	11,900
Total portfolio						
2006	**1,282.7**	**100**	**21.6**	**63**	**241,400**	**27,600**
2005	1,009.8	100	14.8	64	241,300	38,100

*Properties held throughout the year.

West End
Central: Belgravia, Mayfair, Soho, Covent Garden, Victoria, Paddington, Noho
Outer: Camden, Islington, Ladbroke Grove

City
Outer: Clerkenwell, Holborn, Shoreditch, Southbank and City borders

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant accommodation rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length† Years
West End						
Central	40.8	331	3.1	9.3	53.2	9.6
Outer	1.8	140	1.6	0.3	3.7	6.4
	42.6	314	4.7	9.6	56.9	9.5
City						
Outer	16.8	222	2.7	2.4	21.9	5.8
Total portfolio						
2006	**59.4**	**281**	**7.4**	**12.0**	**78.8**	**8.5**
2005	49.3	250	9.6	7.7	66.6	8.0

†Lease length weighted by rental income and assuming tenants break at first opportunity.

	Rental uplift per annum £m	Rental per annum £m	Yield‡ %
Portfolio yields			
Year end contracted rental income, net of ground rents*		59.4	4.5
Letting 10,200m² vacant accommodation available at year end	2.4		4.7
Completion and letting 17,400m² of refurbishments and developments	5.0		5.0
Anticipated rent review and lease renewal reversions	12.0		5.9
Portfolio reversion		19.4	
Potential portfolio rental value		78.8	5.9

‡Yield based upon the year end valuation and adjusted for cost to complete commenced projects.
*Includes the Horseferry House pre-letting of £5.3 million per annum.

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

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

Valuation commentary

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

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

The underlying valuation uplift was 21.6% compared to 14.8% last year. The West End properties, which represented 74% of the portfolio by value, achieved an increase of 20.9%. With their characteristic low levels of rent, at £314 per m^2, they were well positioned to capitalise on the strong improvement in rents, and consequently capital values. In particular, Victoria, which has one of the lowest vacancy rates of the central London villages, enjoyed a valuation increase of 25.7%. Noho properties were up 20.4% and Soho/Covent Garden achieved 18.0%. Properties in the City borders and Holborn made up the remaining 26% of the portfolio and here the valuation increase was 23.6%. An important contribution to this was the valuation surplus of £28.9 million at The Johnson Building, which was completed and virtually fully let before the end of the year.

Portfolio management

Our strategy of increasing the momentum of the project programme over the last two years has produced excellent results, with letting activity at record levels. During the year, lettings totalled over 40,000m^2, excluding Telstar, and achieved an annualised income of over £12.6 million per annum. The key lettings were at The Johnson Building and Horseferry House, which together will ultimately produce over £10 million per annum of rental income. In addition, we remained active at a number of our multi-let buildings, such as Morelands and the Tea Building on the City borders. Both of these are now at full occupancy, which demonstrates the strength of the letting market.

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

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

At the year end, vacant space in the portfolio available for occupation was only 10,200m^2, which represented a low void rate of 3.0% of the portfolio rental value and 4.2% of the floor area. This included the recently completed schemes at 186 City Road (3,600m^2) and St Cross Street, EC1 (1,750m^2), the latter of which is now let.

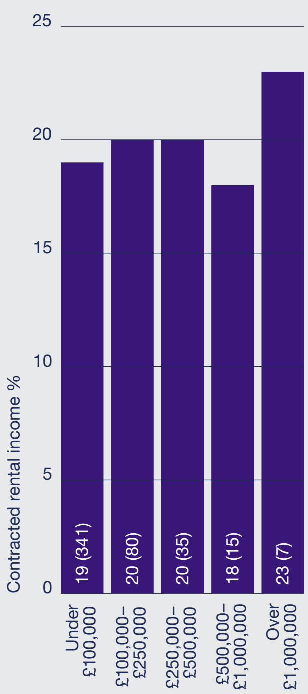
Operating review
Portfolio activity

Principal lettings	Approximate net area m²	Rental per annum £m	Headline rental £ per m²	Comments
Horseferry House, SW1	15,200	5.29	410	Pre-letting to Burberry.
The Johnson Building, EC1	12,540	4.65	380–430	Four lettings; Grey Advertising, Thomson Scientific, Faber Maunsell and EAT.
Telstar, W2*	9,900	n/a	500	Pre-letting to Rio Tinto at £4.95m per annum.
Middlesex House, W1	1,580	0.65	405–430	Four lettings including pre-lettings to Fletcher Priest Architects and Walker Media.
55–65 North Wharf Road, W2	2,670	0.50	205	Short-term lettings pending future project.
26 King Street, WC2	950	0.28	325	Restaurant letting to Carluccio's.
Tea Building, E1	1,710	0.22	160	Various suites.
The Turnmill, EC1	1,260	0.19	160	Short-term lettings pending future project.

Principal rent reviews				
Yorkshire House, SW1	820	0.33	400	Single rent review concluded to show a 16% increase.
25 Savile Row, W1	505	0.29	590	Two rent reviews settled to show an average increase of 18%.

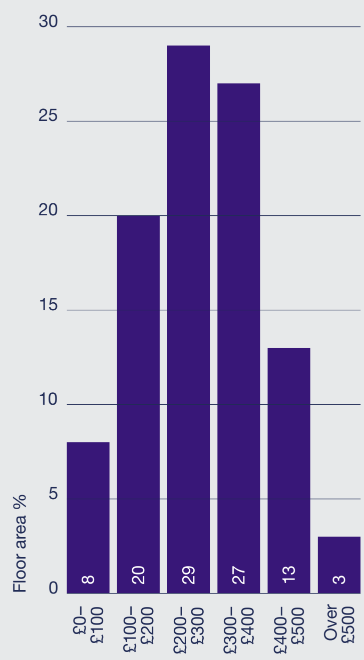
*Development managed on behalf of the Prudential.

Profile of rental income bands



Contracted rental income
( ) Number of tenancies

Profile of occupied floor area



Rental per m²

Other vacant space, which is either under refurbishment or identified for future projects, stood at 17,400m^2 and included the proposed new office building at Gresse Street and our mixed-use scheme at Portobello Dock. Total vacant space at the year end was 27,600m^2, down from 38,100m^2 at the prior year. The reduction from last year's level was also due to the successful re-letting of space which became vacant during the year.

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

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

Acquisitions and disposals

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

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

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

The combined portfolio

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

Properties in central London, which is the group's principal operating area, account for £2.2 billion of the value and provide 440,000m^2 of predominantly office space. They are let at a low average rental of £255 per m^2 and have an average unexpired term of 10.2 years.

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

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

Operating review
Acquisitions and disposals

Acquisitions

£58.3 million of central London acquisitions during the year

	Approximate net area m^2	Comments
The Astoria, 157–165 Charing Cross Road, WC2	3,900	An entertainment venue and two retail units let at £1.1 million per annum on leases expiring December 2008. Adjacent to existing ownerships and offers redevelopment potential. Freehold.
17 Oxford Street, W1	300	A freehold retail unit adjoining the Astoria.
186 City Road, EC1	3,600	A freehold office building, recently refurbished.
137–142 Bramley Road, W10	2,900	A single let office building in an improving location.
Riverwalk House, 157–166 Millbank, SW1	n/a	Freehold acquired. The group previously held a 57 year interest on this 6,900m^2 office building. The property, which fronts the river Thames, has redevelopment potential.
Argosy House, 215 Great Portland Street, W1	n/a	Freehold acquired. The group previously held a 55 year interest on this 2,800m^2 office building. With the occupational lease expiring this year a refurbishment opportunity has been unlocked.
35 Kentish Town Road, NW1	n/a	Freehold acquired. This 1,400m^2 property, when combined with an adjacent ownership offers a development opportunity for a mixed-use canal side scheme.
	10,700	

Disposals

Properties sold for a net £31.2 million

	Approximate net area m^2	Comments
Morley House, 314 Regent Street, W1	3,800	Included in the property swap with The Crown Estate.
Sweeps Residential, EC1	n/a	14 residential units developed as part of The Johnson Building project.
Islington Estate	9,300	Four properties.
	13,100	

Refurbishment and redevelopment

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

The Johnson Building in Hatton Garden, completed in the first half, provides 13,900m^2 of attractive office accommodation, around an impressive central atrium. This development has fulfilled our aspirations of delivering something special into an improving location. The appeal and success of this building has been confirmed with lettings to major names such as Grey Advertising, Faber Maunsell and Thomson Scientific.

Looking forward, a number of major projects are under construction. Telstar, Paddington, the 9,900m^2 building, where we are development managers on behalf of the Prudential, was pre-let during the year to mining group Rio Tinto for an annual rent of £4.95 million per annum. This rental set a new benchmark for the area. With the core, frame and floor slabs complete, the façade is now progressing quickly, creating an exciting building. Practical Completion is scheduled for summer 2007. The prominence of the location and the design will ensure this will be a local landmark.

Following the grant of planning consent for an increase in floor area and substantial alterations, enabling works have commenced at Horseferry House, Victoria. This has revealed the building's expansive potential, which will be transformed into some exceptional open spaces. The refreshingly, modern design approach to this imposing 1930's building attracted an early pre-let in December, with Burberry leasing the entire 15,200m^2 building for £5.3 million per annum. Upon completion, which is scheduled for spring 2008, this will become their new global head office.

In Noho, a 4,400m^2 project is planned at Gresse Street. Here, we intend to improve the area and, thereby, the value of our adjacent holdings, through the delivery of an eye-catching Derwent London scheme. Thoughtfully presented public realm, and a mix of uses, will turn this under-appreciated location into a vibrant new destination for occupiers.

Elsewhere, other smaller projects will allow the group to take advantage of the current strong occupational environment. A canal-side, mixed-use scheme of 6,400m^2 at Portobello Dock, Ladbroke Grove is underway. A varied range of commercial and residential units will be delivered to the market from autumn 2007. In addition, we have recently completed the refurbishment of 186 City Road, EC1. This handsome building offers 3,600m^2 of high quality, flexible office space in a convenient location on competitive terms.

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

A number of important, future projects, which are at the planning stage, are being advanced. In the summer, we made an application for a new office building of 9,900m^2 in Chancery Lane, Holborn, and we will be shortly submitting a revised application for our North Wharf Road development in Paddington. The latter will include a 23,000m^2 office building with a cutting-edge design, which will be accompanied by a separate residential building of nearly 100 units. This highly complex regeneration project is in a pivotal location and we are currently in detailed discussions with the planning authorities as to the mix of land uses for the scheme.

Operating review
Refurbishment and redevelopment

Current projects

	Proposed net area m²	Practical or expected completion	Estimated cost to complete £m	Comments
Victoria				
Horseferry House, Horseferry Road, SW1	15,200	Apr 08	18.9	Comprehensive refurbishment underway of this 1930's office building. Pre-let to Burberry at £5.3 million per annum.
Fitzrovia				
Arup Phase II & III, Fitzroy Street and Howland Street, W1	13,200	2007/09	37.9	An office development under construction. Pre-let to Arup on a 25 year lease at £6.0 million per annum. Phased completion.
The Qube, 90 Whitfield Street, W1	10,000	Aug 07	12.3	An office development nearing completion of 9,300m² and 700m² of retail space.
Ladbroke Grove				
Portobello Dock and Kensal House, W10	6,400	Oct 07	10.3	Construction underway at this canal-side property to provide office and residential space.
Noho				
16–19 Gresse Street and Rathbone Place, W1	4,400	Mar 09	16.3	A new 4,400m² office development proposed with 11 residential units to be provided in Rathbone Place.
Paddington				
Telstar, W2	9,900	Sep 07	n/a	Construction well advanced on this office development on behalf of Prudential. Pre-let to Rio Tinto on a 20 year lease at £4.95 million per annum.

Future projects – with planning consent

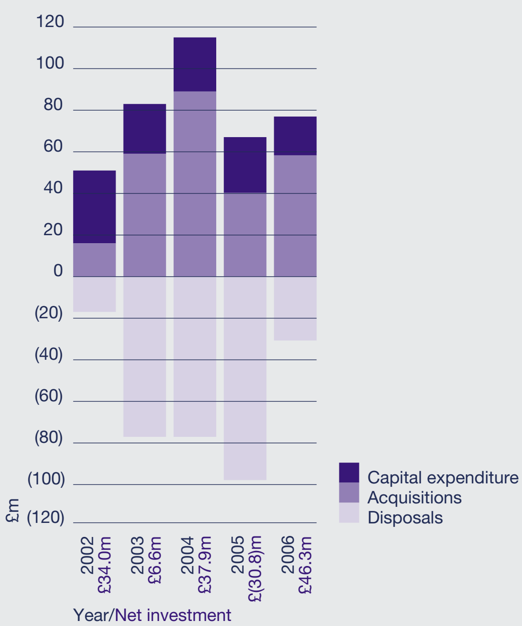
	Existing area m²	Comments
City borders		
18–30 Leonard Street, EC2	Site	Planning permission obtained for 2,000m² of offices and 47 residential units.
Southbank		
Wedge House, 30–40 Blackfriars Road, SE1	3,600	Redevelopment opportunity in 2008. Planning permission obtained for a 8,200m² office development.
Clerkenwell		
20–26 Rosebery Avenue, EC1	2,300	Planning permission obtained for a refurbishment and to add two floors. Proposed scheme floor area 3,400m².

Operating review
Refurbishment and redevelopment

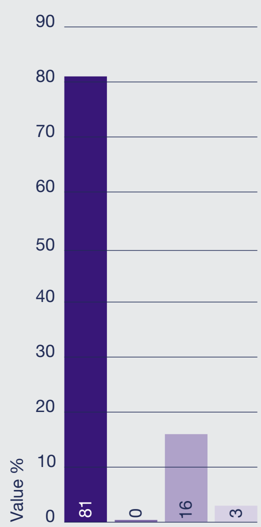
Future projects – subject to planning consent

	Existing area m^2	Comments
Paddington 55 – 65 North Wharf Road, W2	7,800	Significant redevelopment potential. A revised planning application to be submitted for 23,000m^2 of offices and 100 residential units.
Belgravia 1 – 5 Grosvenor Place, SW1	15,000	A landmark location on Hyde Park Corner with significant redevelopment potential. Planning studies initiated.
Holborn 40 – 43 Chancery Lane, WC2	5,700	A planning application submitted for a 9,900m^2 office development around a central courtyard.
City borders City Road Estate, EC1	9,300	A planning application submitted for a development of 9,300m^2 of offices and 235 apartments.
Fitzrovia 80 Charlotte Street, W1	18,600	Substantial island block occupied by Saatchi & Saatchi with medium-term redevelopment potential. Feasibility studies initiated.
Victoria Riverwalk House, 157–166 Millbank, SW1	6,900	A prime riverside location overlooking the Thames. Potential to substantially increase the site density.
Soho The Astoria and 135–155 Charing Cross Road, WC2	10,000	The proposed location for a Crossrail transport interchange, which could unlock significant development potential. Architectural and planning studies progressing.
Islington The Angel Centre, 403 St John Street, EC1	15,000	Potential to increase the floor area at this prominent building. In discussion with existing tenant regarding an early surrender to obtain vacant possession.

Net investment



Value of portfolio by tenure



	£m
Freehold	1,039.7
Leasehold	
over 100 years	0.0
50–100 years	205.8
under 50 years	37.2
	1,282.7

For the mid- to longer-term, a number of major holdings have been identified with scope for large-scale redevelopments. Following the swap with The Crown Estate, we improved our tenure by acquiring the freehold at Riverwalk House in Victoria. This building occupies a substantially under-utilised site in a prime location overlooking the Thames. At lease expiry in 2011, this will provide an attractive redevelopment scheme in the order of 18,600m^2, which could incorporate exceptionally high quality residential accommodation. At Charing Cross Road, we continue to explore the long-term possibilities for our interests. This is an extensive project, incorporating numerous sites and stakeholders, as well as significant involvement with London Underground and Crossrail. The opportunity to participate in a regenerative project of this scale is eagerly anticipated. Initial studies indicate the potential for over 28,000m^2 of space. Additionally, in association with our freeholder, The Grosvenor Estate, we have initiated preliminary architectural studies of 1–5 Grosvenor Place at Hyde Park Corner. The combination of this landmark location and the potential for the site presents an exceptional opportunity in the West End. The existing buildings total 15,000m^2 and there is potential to double this following redevelopment.

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

The most immediate project is The Qube, which will be delivered to the market in summer 2007. This 10,000m^2 office building, one of the few large-scale new buildings available in the West End this year, is attracting early interest. We are also on site at the adjacent 13,200m^2 Arup Phase II & III development. A further, important holding in the area, with long-term potential, is the 18,600m^2 of properties, centred on Charlotte Street, let to Saatchi & Saatchi.

Another potential major scheme is The Angel Centre, Islington, a prominently located 15,000m^2 office building. This is an improving area and studies have been instigated for a substantial refurbishment and creation of additional space, along the lines of The Johnson Building scheme.

The overall pipeline for the merged group is 315,000m^2, with an estimated completed development value of £2.7 billion.

On behalf of the board

J.D. Burns
20th March 2007

Financial review

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

2006 results commentary

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

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

Net property income

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

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

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

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

Profit before taxation

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

Profit before tax for the year was £242.8 million compared with £150.4 million in 2005. The largest item in the group income statement is the revaluation surplus of £223.3 million, which showed an increase of £99.2 million on last year's figure. A further £3.5 million of valuation surplus is included in the joint venture results.

Horseferry House
Victoria, SW1
15,200m² offices
Completion:
Spring 2008

Financial review

An explanation of the factors behind these surpluses can be found in the operating review. Other items that reconcile the adjusted profit to IFRS profit before taxation include property disposal profits of £2.9 million and the fair valuation of derivatives, which this year gave rise to a profit of £3.2 million. Profit on disposals was down £6.7 million, year on year, on proceeds reduced from £97.8 million to £31.2 million in the run up to the conversion to REIT status.

The final item, the exceptional finance cost of £18.1 million, was the cost of redeeming the company's 10⅛% First Mortgage Debenture Stock 2019 in November. This is discussed further under 'Financing'.

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

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

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

Cash flow
The group's underlying operational business generated a cash inflow of £12.0 million before deducting the cost of redeeming the debenture of £17.6 million. This compares with £13.7 million in the prior year. For reasons noted earlier, disposal proceeds were reduced in 2006 while the amount spent on property acquisitions increased slightly. Consequently, the net investment in business assets was nearly £48 million. This included capital expenditure, which was lower both compared with last year and budget. However, this was only due to timing variances and schemes such as Kensal Dock and Horseferry House are now well underway. In total, the group saw a cash outflow in 2006 of £59.4 million compared with an inflow in 2005 of £34.5 million.

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

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

During the year, the company redeemed its £35 million listed debenture, which had been due for repayment in 2019. The 10⅛% coupon on this was out of line with current interest rates and the debenture only accounted for a small amount of the group's total debt. The premium paid for this, together with the costs of redemption, totalled £17.6 million. A further £0.5 million of original issue costs, not previously written-off in accordance with IFRS, were expensed to give a total charge to the group income statement of £18.1 million. This amount can be offset against taxable profits.

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

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

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

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

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

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

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

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

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

On behalf of the board

C.J. Odom
20th March 2007

Group income statement

for the year ended 31st December 2006

	Note	2006 £m	2005 £m
Gross property income		**51.3**	49.5
Development income	3	**11.6**	–
Property outgoings	4	**(4.9)**	(2.9)
Net property income		**58.0**	46.6
Administrative expenses		**(10.1)**	(8.8)
		47.9	37.8
Revaluation surplus		**223.3**	124.1
Profit on disposal of investment properties	5	**2.9**	9.6
Profit from operations		**274.1**	171.5
Finance income	6	**0.4**	0.4
Finance costs	6	**(20.4)**	(21.5)
Exceptional finance costs	6	**(18.1)**	–
Total finance costs	6	**(38.5)**	(21.5)
Movement in fair value of derivative financial instruments		**3.2**	–
Share of results of joint ventures	7	**3.6**	–
Profit before tax	8	**242.8**	150.4
Tax expense	11	**(60.6)**	(33.7)
Profit for the year	12	**182.2**	116.7
Earnings per share	14	**340.13p**	218.63p
Diluted earnings per share	14	**337.21p**	216.81p

Statements of recognised income and expense

for the year ended 31st December 2006

	2006 £m	2005 £m
Group		
Profit for the year	**182.2**	116.7
Recognition of financial instruments at 1st January 2005 at fair value under IFRS 1 transitional rule	**–**	(2.2)
Deferred tax in respect of share-based payments	**0.6**	1.4
Total recognised income and expense relating to the year	**182.8**	115.9
Company		
Profit for the year	**7.1**	7.7
Recognition of financial instruments at 1st January 2005 at fair value under IFRS 1 transitional rule	**–**	(2.2)
Deferred tax in respect of share-based payments	**0.6**	1.4
Total recognised income and expense relating to the year	**7.7**	6.9

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

The notes on pages 28 to 48 form part of these financial statements.

Balance sheets

as at 31st December 2006

	Note	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Non-current assets					
Investment property	17	**1,274.0**	1,015.6	**–**	–
Property, plant and equipment	18	**0.3**	0.4	**0.3**	0.4
Investments	19	**5.4**	1.8	**192.5**	186.3
Deferred tax asset	26	**–**	–	**2.5**	2.5
Financial assets	25	**0.1**	–	**0.1**	–
Other receivables	21	**13.7**	13.3	**–**	–
		1,293.5	1,031.1	**195.4**	189.2
Current assets					
Trade and other receivables	22	**39.4**	12.3	**451.9**	387.3
Corporation tax asset		**1.4**	–	**1.8**	1.7
Cash and cash equivalents		**–**	14.7	**–**	10.2
		40.8	27.0	**453.7**	399.2
Total assets		**1,334.3**	1,058.1	**649.1**	588.4
Current liabilities					
Bank overdraft		**2.2**	2.0	**0.7**	0.1
Trade and other payables	23	**32.5**	20.7	**89.8**	73.3
Corporation tax liability		**–**	3.0	**–**	–
Provisions	24	**0.1**	0.1	**0.1**	0.1
		34.8	25.8	**90.6**	73.5
Non-current liabilities					
Financial liabilities	25	**347.6**	319.7	**341.0**	299.6
Provisions	24	**1.3**	1.2	**1.3**	1.2
Deferred tax liability	26	**167.2**	105.2	**–**	–
		516.1	426.1	**342.3**	300.8
Total liabilities		**550.9**	451.9	**432.9**	374.3
Total net assets		**783.4**	606.2	**216.2**	214.1
Equity attributable to equity holders of the parent company					
Share capital	27	**2.6**	2.6	**2.6**	2.6
Share premium	28	**156.1**	155.1	**156.1**	155.1
Other reserves	28	**3.8**	2.3	**3.8**	2.3
Retained earnings	28	**620.9**	446.2	**53.7**	54.1
Total equity	29	**783.4**	606.2	**216.2**	214.1

The financial statements were approved by the board of directors and authorised for issue on 20th March 2007.

J.D. Burns, Director
C.J. Odom, Director

The notes on pages 28 to 48 form part of these financial statements.

Group cash flow statement

for the year ended 31st December 2006

	Note	2006 £m	2005 £m
Operating activities			
Cash received from tenants		**48.7**	46.3
Direct property expenses		**(5.5)**	(3.0)
Cash paid to and on behalf of employees		**(4.5)**	(4.5)
Other administrative expenses		**(3.9)**	(2.8)
Interest received		**0.4**	0.4
Interest paid		**(21.9)**	(21.7)
Exceptional financing costs		**(17.6)**	–
Tax expense paid in respect of operating activities		**(1.3)**	(1.0)
Net cash (used in)/from operating activities		**(5.6)**	13.7
Investing activities			
Acquisition of investment properties		**(48.9)**	(40.3)
Capital expenditure on investment properties		**(18.9)**	(26.7)
Disposal of investment properties		**31.2**	97.8
Acquisition of subsidiary	20	**(6.2)**	–
Transaction costs for the acquisition of London Merchant Securities plc		**(0.4)**	–
Purchase of property, plant and equipment		**(0.2)**	–
Tax expense paid in respect of investing activities		**(2.9)**	(3.2)
Net cash (used in)/from investing activities		**(46.3)**	27.6
Financing activities			
Movement in bank loans		**78.5**	(26.0)
Redemption of debenture		**(35.0)**	–
Net proceeds of share issues	27	**1.0**	1.0
Dividends paid	13	**(7.5)**	(6.8)
Net cash from/(used in) financing activities		**37.0**	(31.8)
(Decrease)/increase in cash and cash equivalents in the year		**(14.9)**	9.5
Cash and cash equivalents at the beginning of the year		**12.7**	3.2
Cash and cash equivalents at the end of the year	31	**(2.2)**	12.7

The notes on pages 28 to 48 form part of these financial statements.

Company cash flow statement

for the year ended 31st December 2006

	Note	2006 £m	2005 £m
Operating activities			
Cash received from tenants		**0.2**	0.2
Cash paid to and on behalf of employees		**(4.5)**	(4.5)
Other administrative expenses		**(3.9)**	(2.8)
Interest received		**0.3**	0.3
Interest paid		**(21.1)**	(20.4)
Exceptional financing costs		**(17.6)**	–
Tax expense paid in respect of operating activities		**(0.8)**	–
Net cash used in operating activities		**(47.4)**	(27.2)
Investing activities			
Purchase of property, plant and equipment		**(0.1)**	–
Acquisition of subsidiary	20	**(6.2)**	–
Transaction costs for the acquisition of London Merchant Securities plc		**(0.4)**	–
Net cash used in investing activities		**(6.7)**	–
Financing activities			
Movement in intercompany loans		**5.8**	70.2
Movement in bank loans		**79.0**	(26.0)
Redemption of debenture		**(35.0)**	–
Net proceeds of share issues	27	**1.0**	1.0
Dividends paid	13	**(7.5)**	(6.8)
Net cash from financing activities		**43.3**	38.4
(Decrease)/increase in cash and cash equivalents in the year		**(10.8)**	11.2
Cash and cash equivalents at the beginning of the year		**10.1**	(1.1)
Cash and cash equivalents at the end of the year	31	**(0.7)**	10.1

The notes on pages 28 to 48 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Basis of preparation

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

The principal accounting policies are described below.

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.

Standards, interpretations and amendments to published standards that are 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:

IFRS 7	Financial Instruments: Disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – capital disclosures (effective from 1st January 2007)

IFRS 7 introduces new disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and the complementary amendment to IAS 1 on the group's financial statements but does not expect any changes to disclosures resulting from their introduction to have a material effect on the financial statements.

The following standard and interpretations have been issued but all 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 8	Operating Segments (effective from 1st January 2009)
IFRIC 7	Applying the Restated Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1st May 2006)
IFRIC 8	Scope of IFRS 2 – Share Based Payment Transactions (effective from 1st May 2006)
IFRIC 9	Reassessment of Embedded Derivatives (effective from 1st June 2006)
IFRIC 10	Interim Financial Reporting and Impairment (effective from 1st November 2006)
IFRIC 11	IFRS 2 Group and Treasury Share Transactions (effective from 1st March 2007)
IFRIC 12	Service Concession Agreements (effective from 1st January 2008)

UK companies can only adopt IFRSs and IFRICs after they have been endorsed by the European Union. Of the standards and interpretations listed above, the following had not yet been endorsed by the European Union at the date these accounts were signed:

IFRS 8	Operating Segments
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

Critical accounting estimates and judgements

The preparation of financial statements in conformity 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. Management anticipate that, in respect of assets and liabilities carried at the balance sheet date, none of these estimates have a significant risk of causing a material effect on the results for the forthcoming year. Any judgements made by management are discussed in the accounting policies below.

1 Accounting policies (continued)

Gross property income

Gross property income arises from three main sources:

(i) Rental income

Rental income 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. This includes the effect of lease incentives to tenants, which are normally in the form of rent free periods or capital contributions in lieu of rent free periods.

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) Reverse surrender premiums

Payments received from tenants to surrender their lease obligations are recognised immediately in the group income statement.

(iii) Dilapidations

Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the group income statement.

Development income

Development income is recognised in accordance with IAS 18, Revenue, and is based on the directors' assessment of the stage of completion of the project, the future costs and the expected value of the completed building.

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) Other property expenditure

Vacant property costs and other property costs are expensed in the year to which they relate.

Employee benefits

(i) Share-based remuneration

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 model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7th November 2002.

(ii) Pensions

The company operates a defined contribution pension scheme. The contributions payable to the scheme are expensed in the year to which they relate.

1 Accounting policies (continued)

Investment properties

(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. They are reported on the group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive debtors. Fair value is the amount for which an investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the group income statement in the year in which they arise.

(ii) Capital expenditure

Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. Borrowing costs that are directly attributable to such expenditure are expensed in the year in which they arise.

(iii) Disposal

The disposal of investment properties is accounted for 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.

Property, plant and equipment

Property, 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 their net asset value.

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.

Trade receivables

Trade receivables are recognised and carried at the original transaction value.

Trade payables

Trade payables are recognised and carried at the original transaction value.

1 Accounting policies (continued)

Financial liabilities

(i) Bank loans and overdrafts

Bank loans and overdrafts 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) Debenture loan

The debenture loan is 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 debenture on an effective interest basis. Interest payable to debenture holders is expensed in the year to which it relates.

On redemption, all remaining unamortised discount and costs on issue are recognised together with the premium and the costs of redemption in finance costs in the income statement as an exceptional item in accordance with the accounting policy below.

(iii) 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.

(iv) 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.

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 when the liability is settled or the asset is realised. Deferred tax is charged or credited in the group income statement, except when it relates to items charged or credited directly to equity, in which case it is also dealt with in equity.

Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the group and which, individually or, if a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

2 Segmental information

During the year, the group had only one (2005: one) business activity, that being property investment, refurbishment and redevelopment and operates only in Central London.

3 Development income

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

4 Property outgoings

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

5 Profit on disposal of investment properties

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

6 Finance income and costs

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

Exceptional finance costs arise from the redemption of the 10⅛% First Mortgage Debenture Stock 2019.

7 Share of results of joint ventures

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

8 Profit before tax

	2006 £m	2005 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.1**	0.1
Rent payable under property leases	**0.4**	0.2
Auditor's remuneration		
Audit	**0.1**	0.1
Tax compliance services	**0.1**	0.1

In addition, auditor's remuneration included £0.5m (2005: £nil) for corporate finance services which was charged to the balance sheet.

9 Directors' emoluments

	2006 £m	2005 £m
Remuneration for management services	**2.8**	2.2
Adjustment in respect of prior years' incentive schemes	**–**	0.2
Non-executive directors' remuneration	**0.2**	0.1
Gain on exercise of share options	**1.7**	1.2
Pension contributions	**0.4**	0.4
	5.1	4.1

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 on directors' remuneration on pages 57 to 62. The only key management personnel are the directors.

10 Employees

	2006 £m	2005 £m
Staff costs, including those of directors:		
Wages and salaries	**4.4**	3.8
Social security costs	**1.0**	0.9
Pension costs	**0.6**	0.6
Share-based payments expense relating to equity-settled schemes	**0.9**	0.7
	6.9	6.0

The average number of employees during the year, excluding directors, was 23 (2005: 23). All were employed in administrative roles.

Employee costs are wholly incurred by the company.

11 Tax expense

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

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

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

12 Profit for year attributable to members of Derwent London plc

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. Profit for the year includes £7.1m (2005: £7.7m) which has been dealt with in the accounts of the company.

13 Dividend

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

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

14 Earnings per share

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

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

15 Total return

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

Total return is the movement in adjusted net asset value per share as derived in note 30 plus the dividend per share paid during the year, expressed as percentage of the adjusted net asset value per share at the beginning of the year.

16 Gearing

Balance sheet gearing is 44.7% (2005: 50.1%). This is defined as net debt divided by net assets.

Profit and loss gearing is 1.85 (2005: 1.84). This is defined as recurring net property income less administrative costs divided by net interest payable, having reversed the reallocation of ground rent payable on leasehold investment properties to interest payable of £0.9m (2005: £1.3m).

	Freehold £m	Leasehold £m	Total £m
17 Investment property			
Group			
Carrying value			
At 1st January 2006	724.2	291.4	1,015.6
Transfer	38.5	(38.5)	–
Acquisitions	58.3	–	58.3
Capital expenditure	17.8	0.9	18.7
Additions	76.1	0.9	77.0
Disposals	(10.3)	(20.4)	(30.7)
Revaluation	196.7	26.6	223.3
Movement in grossing up of headlease liabilities	–	(11.2)	(11.2)
At 31st December 2006	**1,025.2**	**248.8**	**1,274.0**
At 1st January 2005	595.4	320.2	915.6
Transfer	23.2	(23.2)	–
Acquisitions	39.3	0.2	39.5
Capital expenditure	25.3	1.2	26.5
Additions	64.6	1.4	66.0
Disposals	(55.4)	(34.7)	(90.1)
Revaluation	96.4	27.7	124.1
At 31st December 2005	724.2	291.4	1,015.6
Adjustments from fair value to carrying value			
At 31st December 2006			
Fair value	1,039.7	243.0	1,282.7
Adjustment for rents recognised in advance	(14.5)	(0.8)	(15.3)
Adjustment for grossing up of headlease liabilities	–	6.6	6.6
Carrying value	1,025.2	248.8	1,274.0
At 31st December 2005			
Fair value	737.5	272.3	1,009.8
Adjustment for rents recognised in advance	(13.3)	(1.0)	(14.3)
Adjustment for grossing up of headlease liabilities	–	20.1	20.1
Carrying value	724.2	291.4	1,015.6

The investment properties were revalued at 31st December 2006 at £1,282.7m (2005: £1,009.8m) by either CB Richard Ellis Limited or Keith Cardale Groves (Commercial) Limited, as external valuers, on the basis of market value as defined by the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors.

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

18 Property, plant and equipment

Group and Company

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

19 Investments

Group

The group has 50% interests in the joint ventures, Primister Ltd and Dorrington Derwent Holdings Ltd, which have been accounted for by the equity method. The following amounts have been recognised in the group's balance sheet relating to these joint ventures.

	2006 £m	2005 £m
Non-current assets	**8.0**	4.5
Current assets	**0.4**	0.3
Current liabilities	**(0.2)**	(0.2)
Non-current liabilities	**(2.8)**	(2.8)
Net assets	**5.4**	1.8
Income	**3.9**	0.4
Expenses	**(0.3)**	(0.4)
Profit for the year	**3.6**	–

Company

	Subsidiaries £m	Joint ventures £m	Total £m
Shares in subsidiaries:			
At 1st January 2005 and 1st January 2006	185.4	–	185.4
Acquisition of subsidiary	6.2	–	6.2
At 31st December 2006	191.6	–	191.6
Loans:			
At 1st January 2005	–	0.8	0.8
Release of provisions	–	0.1	0.1
At 1st January 2006	–	0.9	0.9
Release of provisions	–	–	–
At 31st December 2006	–	0.9	0.9
At 31st December 2006	**191.6**	**0.9**	**192.5**
At 31st December 2005	185.4	0.9	186.3

20 Acquisition of subsidiaries

The following acquisition took place during the year ended 31st December 2006:

Name of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition
Bramley Road Limited	Property investment	4th October 2006	100%	£6.2m

The net assets acquired on 4th October 2006 were:

	Book value of net assets acquired £m	Fair value of net assets acquired £m
Non-current assets		
Investment property	8.6	8.6
Current assets		
Cash and cash equivalents	0.2	0.2
Current liabilities		
Trade payables	(0.1)	(0.1)
Non-current liabilities		
Financial liabilities	(0.7)	(0.7)
Deferred tax liabilities	(1.8)	(1.8)
Net assets acquired	6.2	6.2
Goodwill on acquisition		–
Cost of acquisition		6.2

The cost of this acquisition was settled 100% in cash, paid from the company's existing bank facilities.

In relation to the acquisition of Bramley Road Limited, post-acquisition profit of £0.2m was recognised in the profit for the year ended 31st December 2006. If the acquisition date for this business combination had been 1st January 2006, the property income of the combined entity would have increased by £0.4m to £51.7m. As the investment property owned by Bramley Road Limited was not professionally valued at 31st December 2005 it is impracticable to state the potential effect on the profit for the year.

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
21 Other receivables (non-current)				
Accrued income	**13.7**	13.3	**–**	–

22 Trade and other receivables

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Trade receivables	**11.2**	8.1	**–**	–
Amounts owed by subsidiaries	**–**	–	**439.5**	386.2
Other receivables	**12.0**	0.5	**11.4**	0.2
Prepayments	**1.3**	2.7	**0.7**	0.9
Amounts recoverable under contract	**11.6**	–	**–**	–
Accrued income	**3.3**	1.0	**0.3**	–
	39.4	12.3	**451.9**	387.3

Other receivables include £11.4m (2005: £nil) of costs relating to the acquisition of London Merchant Securities plc. Accruals and deferred income (note 23) include £8.9m (2005: £nil) of these costs.

23 Trade and other payables

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Trade payables	**4.6**	1.8	**2.5**	0.1
Amounts owed to subsidiaries	**–**	–	**72.7**	66.6
Other payables	**0.2**	0.1	**–**	–
Sales and social security taxes	**0.7**	0.6	**–**	0.1
Accruals and deferred income	**27.0**	18.2	**14.6**	6.5
	32.5	20.7	**89.8**	73.3

24 Provisions

	Onerous contract £m	National insurance on share-based payments £m	2006 Total £m	Onerous contract £m	National insurance on share-based payments £m	2005 Total £m
Group and Company						
At 1st January	0.8	0.5	**1.3**	0.9	0.1	1.0
Charged to the income statement	–	0.2	**0.2**	–	0.4	0.4
Utilised in year	(0.1)	–	**(0.1)**	(0.1)	–	(0.1)
At 31st December	0.7	0.7	**1.4**	0.8	0.5	1.3
Due within one year	0.1	–	**0.1**	0.1	–	0.1
Due after more than one year	0.6	0.7	**1.3**	0.7	0.5	1.2
	0.7	0.7	**1.4**	0.8	0.5	1.3

The onerous contract relates to the excess of rents payable over rents receivable on a lease which expires in 2014 and reflects the discounted present value of future net payments under that lease.

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

25 Financial assets and liabilities

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Non-current financial assets				
Derivative financial instruments	**0.1**	–	**0.1**	–
Non-current financial liabilities				
Bank loans	**341.0**	262.0	**341.0**	262.0
10⅛% First Mortgage Debenture Stock 2019	**–**	34.5	**–**	34.5
Leasehold liabilities	**6.6**	20.1	**–**	–
Derivative financial instruments	**–**	3.1	**–**	3.1
	347.6	319.7	**341.0**	299.6

Total financial assets and liabilities

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Secured				
Bank loans wholly repayable:				
between 1–2 years	85.0	–	85.0	–
between 2–3 years	94.0	60.0	94.0	60.0
between 3–4 years	–	65.0	–	65.0
between 4–5 years	100.0	–	100.0	–
more than 5 years	62.0	137.0	62.0	137.0
10⅛% First Mortgage Debenture Stock 2019	–	34.5	–	34.5
	341.0	296.5	341.0	296.5
Unsecured				
Overdrafts repayable in less than 1 year	2.2	2.0	0.7	0.1
Gross debt	343.2	298.5	341.7	296.6
Leasehold liabilities repayable in more than 5 years	6.6	20.1	–	–
Derivative financial instruments	(0.1)	3.1	(0.1)	3.1
	349.7	321.7	341.6	299.7

At 31st December 2006, £802.4m (2005: £660.9m) of the group's properties are charged against the bank loans.

Undrawn committed bank facilities

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Maturity dates:				
less than 1 year	2.8	3.0	2.8	3.0
between 1–2 years	15.0	–	15.0	–
between 2–3 years	31.0	40.0	31.0	40.0
between 3–4 years	–	60.0	–	60.0
between 4–5 years	–	–	–	–
more than 5 years	38.0	63.0	38.0	63.0
	86.8	166.0	86.8	166.0

25 Financial assets and liabilities (continued)

Fixed interest rate and hedged debt

Details of the group's and company's fixed rate debt, which, until its redemption in November 2006, comprised the Debenture Stock 2019, and the instruments used to hedge its floating rate debt, are summarised below:

	Principal £m	Weighted average interest rate %	Weighted average life Years	Fair value £m	Fair value adjustment £m
Interest rate swaps	140.0	5.384	1.63	(0.1)	0.1
Interest rate cap	10.0	6.010	4.46	–	–
At 31st December 2006				(0.1)	0.1
10⅛% First Mortgage Debenture Stock 2019	35.0	10.125	13.59	49.1	(14.1)
Interest rate swaps	160.0	5.387	2.37	3.1	(3.1)
Interest rate cap	10.0	6.010	5.46	–	–
At 31st December 2005				52.2	(17.2)

In both 2006 and 2005 there was no difference between the book value and the fair value of all other financial assets and liabilities.

Interest rate swaps

The fair value represents 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 31st December 2006 for the period to the contracted expiry dates.

Interest rate cap

The fair value represents the net cost of replacement on identical terms at prices prevailing on 31st December 2006.

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by 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 cost of debt %	Weighted average life Years
Group						
At 31st December 2006	193.2	150.0	–	343.2	6.00	3.95
At 31st December 2005	94.0	170.0	34.5	298.5	6.41	6.16
Company						
At 31st December 2006	191.7	150.0	–	341.7	6.00	3.97
At 31st December 2005	92.1	170.0	34.5	296.6	6.42	6.19

Further information on risk as required by IAS 32, Financial Instruments: Presentation is given in the financial review on page 23.

26 Deferred tax

	Revaluation surplus £m	Capital allowances £m	Other £m	Total £m
Group				
Deferred tax liability				
At 1st January 2006	91.6	13.6	–	105.2
Adjustment to reserves in respect of deferred tax on share-based payments	–	–	(0.6)	(0.6)
Acquired on acquistion of subsidiary	1.7	–	–	1.7
Provided during the year in income statement	56.9	2.7	1.3	60.9
At 31st December 2006	**150.2**	**16.3**	**0.7**	**167.2**
At 1st January 2005	62.4	14.4	1.6	78.4
Adjustment to reserves in respect of deferred tax on fair value of derivative financial instruments at 31st December 2004	–	–	(0.9)	(0.9)
Adjustment to reserves in respect of deferred tax on share-based payments	–	–	(1.4)	(1.4)
Provided during the year in income statement	29.2	(0.8)	0.7	29.1
At 31st December 2005	91.6	13.6	–	105.2
Company				
Deferred tax asset				
At 1st January 2006			2.5	2.5
Adjustment to reserves in respect of deferred tax on share-based payments			0.6	0.6
Provided during the year in income statement			(0.6)	(0.6)
At 31st December 2006			**2.5**	**2.5**
At 1st January 2005			–	–
Adjustment to reserves in respect of deferred tax on fair value of derivative financial instruments at 31st December 2004			0.9	0.9
Adjustment to reserves in respect of deferred tax on share-based payments			1.4	1.4
Credited during the year to income statement			0.2	0.2
At 31st December 2005			2.5	2.5

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

27 Share capital

	Authorised £m	Issued and fully paid £m
At 1st January 2005, 31st December 2005, and 31st December 2006	3.55	**2.6**

The number of 5p ordinary shares in issue at the year end was 53,656,492 (2005: 53,472,492). During the year, 184,000 shares (2005: 204,416 shares) were issued as a result of the exercise of share options, which realised proceeds of £1.0m (2005: £1.0m). The number of outstanding share options and other share awards granted are disclosed in the report on directors' remuneration on pages 57 to 62.

28 Reserves

	Share premium £m	Other reserves £m	Retained earnings £m
Group			
At 1st January 2006	155.1	2.3	446.2
Premium on issue of shares	1.0	–	–
Share-based payments expense transferred to reserves	–	0.9	–
Deferred tax in respect of share-based payments	–	0.6	–
Profit for the year	–	–	182.2
Dividends paid	–	–	(7.5)
At 31st December 2006	**156.1**	**3.8**	**620.9**
At 1st January 2005	154.1	0.3	338.5
Fair value of derivative financial instruments at 31st December 2004	–	–	(3.1)
Deferred tax asset in respect of the fair value of derivative financial instruments at 31st December 2004	–	–	0.9
Premium on issue of shares	1.0	–	–
Share-based payments expense transferred to reserves	–	0.6	–
Deferred tax in respect of share-based payments	–	1.4	–
Profit for the year	–	–	116.7
Dividends paid	–	–	(6.8)
At 31st December 2005	155.1	2.3	446.2
Company			
At 1st January 2006	155.1	2.3	54.1
Premium on issue of shares	1.0	–	–
Share-based payments expense transferred to reserves	–	0.9	–
Deferred tax in respect of share-based payments	–	0.6	–
Profit for the year	–	–	7.1
Dividends paid	–	–	(7.5)
At 31st December 2006	**156.1**	**3.8**	**53.7**
At 1st January 2005	154.1	0.3	55.4
Fair value of derivative financial instruments at 31st December 2004	–	–	(3.1)
Deferred tax asset in respect of the fair value of derivative financial instruments at 31st December 2004	–	–	0.9
Premium on issue of shares	1.0	–	–
Share-based payments expense transferred to reserves	–	0.6	–
Deferred tax in respect of share-based payments	–	1.4	–
Profit for the year	–	–	7.7
Dividends paid	–	–	(6.8)
At 31st December 2005	155.1	2.3	54.1

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other	Fair value and related deferred tax 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.

29 Changes in shareholders' equity

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Total recognised income and expense relating to the year	**182.8**	115.9	**7.7**	6.9
Dividends paid	**(7.5)**	(6.8)	**(7.5)**	(6.8)
Share-based payments transferred to reserves	**0.9**	0.6	**0.9**	0.6
Net proceeds on issues of shares	**1.0**	1.0	**1.0**	1.0
	177.2	110.7	**2.1**	1.7
Equity attributable to equity holders of the parent company at 1st January	**606.2**	495.5	**214.1**	212.4
Equity attributable to equity holders of the parent company at 31st December	**783.4**	606.2	**216.2**	214.1

30 Net asset value per share

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

Adjusted net assets excludes the deferred tax provided in respect of capital allowances claimed, on the basis that it is unlikely that this liability will ever crystallise. The deferred tax on the revaluation surplus and the post tax fair value of derivative financial instruments are also excluded, on the basis that these amounts are not relevant when considering the group as an ongoing business.

31 Cash and cash equivalents

	Group 2006 £m	2005 £m	Company 2006 £m	2005 £m
Overdrafts	**(2.2)**	(2.0)	**(0.7)**	(0.1)
Short-term deposits	**–**	14.7	**–**	10.2
	(2.2)	12.7	**(0.7)**	10.1

32 Principal operating companies

The principal operating companies within the group are:

	Class of shares	Principal activity
Subsidiaries		
Derwent Valley Central Limited	Ordinary	Property investment
Derwent Valley London Limited	Ordinary	Property investment
Derwent Valley Property Investments Limited	Ordinary	Property investment
Derwent Valley Property Developments Limited	Ordinary	Property investment

Each of the above companies' share capital is wholly owned by the group.

Joint ventures		
Primister Limited	Ordinary	Property investment
Dorrington Derwent Holdings Limited	Ordinary	Holding company

The company owns 50% of the ordinary shares and controls 50% of the voting rights of each of the joint ventures which 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.

33 Share-based payments

Details of the options held by directors and employees under the group's share option schemes are given in the report on directors' remuneration on pages 57 to 62.

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled option scheme operated by the group.

	2006	2005
Option pricing model used	**Binomial lattice**	Binomial lattice
Share price at date of grant	**£15.120**	£10.710
Exercise price	**£15.120**	£10.710
Number granted	**14,250**	27,000
Contractual life	**10 years**	10 years
Risk free interest rate	**4.8%**	4.6%
Volatility	**20%**	18%
Dividend yield	**0.9%**	1.2%

For both the 2006 and 2005 grants, additional assumptions have been made that there is no employee turnover before vesting and 4% after vesting, and 50% of employees exercise early when the share options are 20% in the money.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last five years.

34 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2006 and not provided for in the accounts amounted to £48.3m (2005: £10.6m).

35 Leases

The group has the following future minimum lease receipts under the operating leases entered into with its tenants:

	2006 £m	2005 £m
Future minimum lease receipts on operating leases expiring:		
less than 1 year	0.9	4.0
between 1–5 years	43.6	49.1
more than 5 years	617.4	347.4
	661.9	400.5

36 Contingent liabilities

The company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2006 the maximum liability that could arise for the company from the cross guarantees amounted to £1.5m (2005: £2.0m). The company has guaranteed its share of a loan to Primister Limited, the contingent liability for which at 31st December 2006 amounted to £2.8m (2005: £2.8m). In addition, the company guarantees its share of interest payable on this loan which amounts to £0.3m per annum (2005: £0.3m). 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.

37 Post balance sheet event

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

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

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

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

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

37 Post balance sheet event (continued)

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

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

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

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

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

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

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

38 Related party transactions

Details of directors' remuneration are given in the report on directors' remuneration on pages 57 to 62 and note 9. Other related party transactions are as follows:

Group

Messrs J D Burns and S P Silver are partners in Pilcher Hershman and Partners, estate agents, which received fees at a commercial rate in respect of the management, letting, acquisition and disposal of certain properties owned by the group of £1.2m, during the year (2005: £1.1m). This amount includes management fees which were rechargeable to tenants of £0.7m (2005: £0.7m). Pilcher Hershman and Partners occupy offices owned by the group for which they paid a commercial rent in the year of £0.1m (2005: £0.1m).

Company

The company received dividends, and received or paid interest on the inter-company loans, with some of its subsidiaries during the year. These transactions are summarised below:

	Dividend received		Interest received/(paid)		Balance owed/(owing)	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Related party						
Derwent Valley Central Ltd	19.0	15.5	10.0	8.6	225.6	175.5
Derwent Valley London Ltd	10.0	–	6.7	6.5	123.2	114.6
Derwent Valley Property Developments Ltd	3.0	2.0	3.4	4.2	61.8	67.5
Derwent Valley Property Investments Ltd	2.5	1.5	(2.3)	(2.0)	(44.2)	(37.8)
Derwent Valley Property Trading Ltd*	–	–	–	–	(0.2)	(0.2)
Derwent Valley Railway Company*	–	–	–	–	(0.2)	(0.2)
Derwent Valley Properties Ltd*	–	–	–	–	(1.1)	(1.1)
Derwent Valley West End Ltd*	–	–	–	–	0.1	–
Bramley Road Ltd	–	–	–	–	0.5	–
Itkin Properties (London) Ltd*	–	–	–	–	1.3	1.3
	34.5	19.0	17.8	17.3	366.8	319.6

*dormant companies.

The group has not made any provision for bad or doubtful debts in respect of related party debtors.

Inter-company balances are repayable on demand and interest is charged at a fixed rate above base rate to reflect the cost of the external borrowings to the group.

Directors' report

The directors present their report and the financial statements for the year ended 31st December 2006.

Results and dividend

Profit before tax was £242.8m (2005: £150.4m) and the profit for the year amounted to £182.2m (2005: £116.7m). For technical reasons connected with the company's merger, the board will not be proposing the payment of a final dividend. In its place, a second interim dividend of 10.525p per ordinary share was paid on 23rd February 2007, which was equivalent to the expected final dividend. This, when taken with the interim dividend of 4.225p per ordinary share, paid on 6th November 2006 gives a total dividend of 14.75p (2005: 13.65p) per ordinary share payable in respect of the results for the year ended 31st December 2006 amounting to £7.9m (2005: £7.2m). Ordinary dividends paid during 2006 amounted to £7.5m (2005: £6.8m), after which £174.7m (2005: £109.9m) was added to retained earnings.

Principal activities, trading review and future developments

The principal activities of the group are those of property investment, refurbishment and redevelopment. A review of the business and comments on the future outlook for the group can be found with the chairman's statement, operating review and financial review on pages 4 to 23.

Directors

The directors of the company during the year and their interests in the share capital of the company, including shares over which options have been granted, are shown below. All of these interests are held beneficially.

	Ordinary shares of 5p each		Options	
	31st December 2006	31st December 2005	**31st December 2006**	31st December 2005
J.C. Ivey	**79,072**	79,072	**–**	–
J.D. Burns	**677,333**	691,536	**66,000**	108,000
S.P. Silver	**226,439**	271,359	**–**	90,250
C.J. Odom	**12,650**	12,650	**67,500**	103,000
N.Q. George	**4,153**	4,153	**66,000**	66,000
P.M. Williams	**5,622**	5,622	**65,750**	76,500
S.J. Neathercoat	**1,000**	1,000	**–**	–
R.A. Farnes	**3,066**	3,066	**–**	–
S.A. Corbyn (appointed 23rd May 2006)	**–***	–	**–***	–

*As at date of appointment.

On 1st February 2007, the company merged with London Merchant Securities plc and four new directors were appointed to the board. As at that date, the interests of these directors were as follows:

	Ordinary shares of 5p each	Options
R.A. Rayne	**4,333,872**	**382,746**
N.R. Friedlos	**10,333**	**20,780**
J. de Moller	**2,985**	**–**
D. Newell	**1,492**	**–**

Mr Rayne's interest in 3,221,327 of the above shares is non-beneficial. There have been no changes in any of the directors' interests between the year-end or the date of appointment and 20th March 2007.

During the year, directors exercised options over 27,250 shares at an exercise price of 553p; 19,000 shares at an exercise price of 501.5p; 35,000 shares at an exercise price of 723.5p; 20,250 shares at an exercise price of 672.5p and 77,000 shares at an exercise price of 426.5p. No new options were granted to directors during the year. Full details of the options held by directors, together with their interests in the group's long-term incentive plan, are given in the report on directors' remuneration, which commences on page 57.

In accordance with the articles of association, Messrs N Q George, P M Williams and S J Neathercoat, retire by rotation and, being eligible, offer themselves for re-election. In addition, Mrs J de Moller and Messrs R A Rayne, S A Corbyn, N R Friedlos and D Newell having been appointed since the last annual general meeting and, being eligible, offer themselves for election. Biographies of all the directors are given on page 67.

Other than as disclosed in note 38, the directors have no interest in any material contracts of the company.

Directors' report

The business review required by s234 ZZB of the Companies Act 1985 is given on pages 8 to 23. The disclosures in respect of financial instruments, as required by Schedule 7 of the Companies Act 1985, is given on pages 40 to 41.

Fixed assets
The group's freehold and leasehold investment properties were professionally revalued at 31st December 2006, resulting in a surplus of £224.3m, before deducting the lease incentive adjustment of £1.0m. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £1,274m.

Charitable donations
During the year, the group made charitable donations amounting to £67,000 (2005: £53,000).

Substantial shareholders
In addition to those of the directors disclosed above, the company has been notified of the following interests in the issued ordinary share capital as at 20th March 2007.

	Number of shares	Percentage of issued share capital
Michael Conn	6,483,156	6.13
Trustees of the Rayne Foundation	5,548,731	5.20
Stichting Pensioenfonds ABP	5,200,586	5.17
Lady Jane Rayne	4,093,838	4.07
ISIS Asset Management	3,352,127	3.33

Creditor payment policy
It is the group's policy to agree terms of business with suppliers prior to the supply of goods or services. In the absence of any dispute, the group pays in accordance with these agreed terms. For the year ended 31st December 2006, the average payment period for trade creditors was 19 days (2005: 19 days).

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 auditors are unaware and 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.

Corporate Governance
Compliance
The board supports the principles of good governance and believes that the company has, except as noted, complied with the main and supporting principles of the Combined Code on Corporate Governance published by the Financial Reporting Council and which is appended to the Listing Rules of the Financial Services Authority. The company has not complied with code provision A.2.2, concerning the independence of the chairman on appointment. The company's position is described in the following section. A number of other code provisions were not applicable in the current year.

The board
Until 23rd May 2006, the board comprised Mr Ivey, the non-executive chairman, five executive directors, Messrs Burns, Silver, Odom, George and Williams and three non-executive directors, Messrs Neathercoat, Yeatman and Farnes. As anticipated in last year's report, on 23rd May 2006, Mr Corbyn joined the board to replace Mr Yeatman who did not stand for re-election at the Annual General Meeting. Following the merger with London Merchant Securities plc on 1st February 2007, Mr Friedlos joined the board as an executive director, Mr Rayne was appointed as non-executive chairman with Mr Ivey becoming deputy chairman, and Mrs de Moller and Mr Newell joined as non-executive directors.

In assessing the independence of the non-executive directors with regard to the guidance on independence contained in code provision A.3.1, the board notes that Mr Rayne and Mr Ivey are not automatically deemed independent. The board is also aware that code provision A.2.2 requires a new chairman to be independent on appointment. In accordance with principle A.6 of the code, the board has reviewed the roles and performance of all directors. This review considered, amongst other matters, the independence of both Mr Rayne and Mr Ivey.

Mr Rayne is not deemed independent, having served in an executive capacity at London Merchant Securities plc prior to the merger. However, the board consider that the circumstances presented by the merger and the contribution Mr Rayne will make as chairman of the enlarged board justify his appointment. Mr Ivey is not deemed independent, having served on the board for more than nine years. Again, the board considered his expertise and the manner in which he carried out his duties and concluded that shareholders should have no cause for concern that his independence is in any way impaired. Furthermore, the directors considered the composition of the board and noted that, having determined Mr Ivey to be independent, the board meets the requirement of code provision A.3.2. Not withstanding this arithmetical compliance, the directors believe that the board is suitably structured 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. Mr Neathercoat is the senior independent director. Biographies of the directors are given on page 67.

The board is responsible for setting the company's strategic aims, ensuring that adequate resources are available to meet its objectives and reviewing management performance. The formal list of matters reserved for the full board's approval is maintained and reviewed periodically. The full board met seven times during the year and six meetings are scheduled for 2007. Extra meetings will be arranged if necessary. Additionally, the executive board, which consists of the executive directors met eight times in 2006. The board is provided with comprehensive papers in a timely manner to ensure that the directors are fully briefed on matters to be discussed at these meetings.

Since 1993, the board has maintained a number of board committees. The terms of reference of each committee are available on the group's website. Set out below are details of the current membership and duties of the three principal committees.

- Remuneration committee
  The committee comprises of Mr Neathercoat, Mr Corbyn, Mrs de Moller and Mr Newell under the chairmanship of Mr Farnes. It is responsible for establishing the company's remuneration policy and individual remuneration packages for the executive directors. There were two meetings of the committee in 2006. The report on directors' remuneration is set out on pages 57 to 62.

- Audit committee
  Mr Neathercoat is chairman of the committee, which is served by Mr Corbyn, Mr Farnes, Mrs de Moller and Mr Newell. The committee is responsible for considering the application of financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The committee met four times during 2006. The report of the audit committee is on page 63.

- Nominations committee
  Mr Ivey is chairman of this committee which consists of all of the non-executive directors. The committee's responsibilities include identifying external candidates for appointment as directors and, subsequently, recommending their appointment to the board and, if requested, making a recommendation concerning an appointment to the board from within the company. The committee also carries out the annual appraisal of the performance and effectiveness of the board and its three committees. The committee met only once during the period under review. The nominations committee report is on page 64.

Directors' attendance at board and committee meetings during the period under review was as follows:

	Full board	Executive board	Remuneration committee	Audit committee	Nominations committee
Number of meetings	7	8	2	4	1
Executive directors					
J.D. Burns	7	8	–	–	–
S.P. Silver	7	6	–	–	–
C.J. Odom	6	7	–	–	–
P.M. Williams	6	7	–	–	–
N.Q. George	6	6	–	–	–
Non-executive directors					
J.C. Ivey	7	–	–	–	1
S.J. Neathercoat	7	–	2	4	1
I. Yeatman (to 23rd May 2006)	1	–	1	1	–
R.A. Farnes	7	–	2	4	1
S.A. Corbyn (from 23rd May 2006)	5	–	1	2	1

Performance evaluation
During 2006, the nominations committee carried out a formal appraisal of the performance of the board and its committees. The remuneration committee performed appraisals of each of the executive directors, as part of the salary review process. The performance of the chairman was evaluated by the non-executive directors under the chairmanship of the senior independent director. All of the appraisals were conducted internally using questionnaires based on the guidance contained in the Higgs Report.

Directors
Appointment of a director from outside the company 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. All new directors must stand for election at the first annual general meeting following their appointment. Existing directors must submit themselves for re-election at least once every three years.

If considered appropriate, new directors are sent on an external training course addressing their role and duties as a director of a listed public company. Existing directors monitor their own continued professional development and are encouraged to attend those courses that keep their market and regulatory knowledge current.

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. Cover is maintained by the company in respect of directors' and officers' liability insurance.

Communication with shareholders
The company has always recognised the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive directors, through the giving of presentations and organising visits to the group's property assets. The board receives regular reports of these meetings. The annual report, which is sent to all shareholders, reinforces this communication. The annual general meeting provides an opportunity for shareholders to question the directors and, in particular, the chairman of each of the board committees. An alternative channel of communication to the board is available through the senior independent director.

Internal control
The directors recognise that they have overall responsibility for ensuring that the group maintains a sound system of internal control that provides the board with reasonable assurance regarding the effective and efficient operations, internal financial control and compliance with laws and regulations. Such a system can only manage business risk, not eliminate it, and cannot provide absolute assurance against material misstatement or loss. Accordingly, the system is designed to provide reasonable assurance that material risks and problems are identified and appropriate remedial measures taken on a timely basis.

The board as a whole retains responsibility for the group's system of internal controls and risk management and performs an annual review of the effectiveness of the system. Following this year's review it believes that an ongoing process for identifying, evaluating and managing the significant risks faced by the group has been in place from 1st January 2006 to 20th March 2007. During the year the board has continued to monitor the operation of the system with a view to further integrating it into the business processes where possible and to ensure that the system is modified to reflect changes in the risk environment.

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.

Going concern
Having made due enquiries, the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the board continues to adopt the going concern basis in preparing the accounts.

Corporate social responsibility (CSR)
The board recognises that the group's activities have an impact on the economy, community and environment within which it operates. These matters are considered to be the responsibility of the whole board and the potential risks arising therefrom are monitored by the group's system of internal control. In assessing whether the group's controls are adequate to manage the risks to the group, the board gave due consideration to key characteristics of the group's business i.e.

- the group does not operate in any countries which have unacceptable human rights records;
- the group operates from a single office in central London;
- the group manages, refurbishes and redevelops a portfolio of central London properties.

Accordingly, it continues to believe that formal policies are only required concerning the environment and health and safety, these being the elements of CSR that present significant risks to the group. Details of the measures taken by the group in 2006 in the areas of environment and health and safety, together with the informal policies adopted in other areas of CSR, are given below.

Environmental awareness
The board has produced an environmental policy, and its aim is to carry out its business whilst minimising the impact it has on the environment, by not only meeting the requirements of legal compliance but by moving beyond this with a detailed environmental strategy to engender continuous improvement.

During 2006, the group reviewed all related policies, measured its performance in a number of key areas and set out a series of objectives for the future.

Working towards sustainability
Of the portfolio under management, much has either already been refurbished by the group or is included in the pipeline of future projects. This emphasis on the re-use of existing buildings is by definition intrinsically sustainable as it minimises the use and transport of raw materials in the construction process and avoids using undeveloped land. Where a building is obsolete, minimising the environmental impact of its redevelopment is given a high priority from the design stage.

The group uses the Building Research Establishment Environmental Assessment Method (BREEAM) for Offices as a benchmarking tool. For major refurbishment projects, a desk top BREEAM assessment is carried out. The target is to achieve the equivalent of Very Good.

Review of environmental performance

- Timber – Wood and wood based products are used extensively during refurbishment. The group aims to have an input and influence design decisions to work towards using timber from certified sources only.

  Timber use is closely monitored in all projects. In all cases architects are expected to select materials that can be shown to come from sustainably managed sources and where there is a high possibility of obtaining evidence of certification. Any hardwoods selected as a feature in the property, which historically would have been from tropical hardwoods, are now selected with this policy in mind.

  Using The Johnson Building, a 2006 project, as an example, the group is able to demonstrate that the MDF panel products were FSC certified and the door cores were PEFC certified – both of which are recognised certification for the sourcing of sustainable timber. The suppliers also claim to source the temperate hardwoods (tulip) and tropical hardwoods (sapele) from sustainable sources although evidence of certification is awaited from the supply chain.

- Ozone depletors – A programme of surveying all properties within the portfolio for ozone depleting substances (ODS) has been carried out. The ODS survey has shown that whilst no CFCs are present, R22 (HCFC22) is present in a number of air conditioning units. The board recognises that R22 is an ODS and that whilst its continued use is allowed until 2010 for virgin HCFCs and 2015 for recycled HCFCs, it will look to implement a policy to completely phase out the use of this refrigerant.

  There are no halon fire extinguishing systems within the portfolio.

- Energy usage – Where a site is redeveloped, energy efficiencies are incorporated in the basic design of the building where possible. When the group refurbishes existing buildings, limited changes can be made to the external design of the building, but there is scope to modify the internal design and consequently increase energy efficiencies. Although little control can be exerted over the amount of energy that tenants use, an awareness-raising programme for tenants, highlighting the benefits of energy efficiency, has been undertaken.

  Complete data sets for energy use for the past four years are available and a lot of variability in total energy use and consequent carbon emissions is visible. This is a reflection of the complexities of the portfolio, with properties at varying stages of refurbishment and levels of occupation. For 2007, the objective is to identify a method of collating data in a form that will allow meaningful year on year comparison and benchmarking.

- Transport – The group has included initiatives within the management of its portfolio to encourage the use of bicycles rather than private cars.

- Property acquisitions – The group's strategy, in line with the current emphasis by the government to build on brownfield sites, determines that only city and brownfield sites will be acquired for redevelopment.

All the properties purchased are subject to an environmental assessment including an assessment of asbestos content. A rolling programme of asbestos audits is maintained for the entire portfolio.

- Waste – The Derwent London approach to waste management operates on two tiers: 1) internally within the group's head office and 2) contractor management. Internally, products that can be recycled have been identified and recycling bins provided throughout 25 Savile Row.

  Waste produced during redevelopment is the one area where the group considers itself to have a high impact on the environment, albeit indirectly via contractors. Given the lack of direct control over this waste production, influence is sought over contractors by establishing a closer working relationship and monitoring quantities of waste produced and percentage recycled. An example of this approach in 2005/06 is The Johnson Building project at which a total of 1,378 tonnes of construction waste was generated. On average 65% was recycled. This data was recorded by the company which handled all waste arising. Recycling of waste generated from the managed portfolio started in 2004.

- Water – Due to the size of the portfolio, it is recognised that water consumption volumes are significant and therefore attempts should be made to minimise usage where possible. Each building within the portfolio is reviewed with regard to the potential for installing water meters. This is normally carried out as part of refurbishment and/or building realignment.

A copy of the group's environmental policy is available on request and a summary can be found on the group's website.

Health and safety
The group's formal health and safety policy is issued to its contractors and professional advisers and is embedded in the management regime for the development sites. To ensure compliance with the policy, an executive is assigned to each project to monitor the performance of the main contractor who in turn monitors the subcontractors and reports back to the executive. All sites are registered with, and inspected under, the Considerate Contractor Scheme. The board receives regular reports from each site together with notification of any accidents that require reporting under the Health and Safety regulations.

The Health and Safety policy is reviewed at regular intervals and revised as necessary.

To ensure continued compliance with the Disability Discrimination Act, new developments are all audited by independent access consultants.

Community/society
No formal policy has been adopted concerning this aspect of corporate responsibility. However, the board is aware of the benefits to the group of London's status as a centre of business and that, through sensitive planning and involvement with local initiatives, it can contribute to preserving and enhancing this status. The group supports the Crossrail link, which represents a major addition to London's transport infrastructure. Mr George is a director of the Chancery Lane Society and the group is represented in the New West End Company, The Westminster Property Owners Association, and the Paddington Business Improvement District. All these bodies address some of the key problems facing London, namely security, planning and transport. The group also contributes to the Paddington Waterside Partnership.

The group recognised the problems that could be caused by a confrontational relationship between landlord and tenant and was a member of the first group of landlords to adopt a voluntary code which offers tenants more flexible leases.

During 2006, the group continued to support Teenage Cancer Trust by providing coordinated advice for the trust's development programme, and sponsored postgraduate students at the London Contemporary Dance School in Camden.

Annual general meeting
The notice of meeting includes four resolutions to be considered as special business.

Resolution 12 permits the Company to serve any notice or send or supply any other document or information to a member by making the notice, document or information available on a website or sending or supplying it in electronic form.

Resolution 13 renews the authority under Section 80 of the Companies Act 1985 for the directors to allot shares up to an aggregate nominal amount of £1,676,112 representing about one third of the issued share capital (excluding treasury shares) at the date of the notice of meeting. The directors have no present intention of issuing shares except on the exercise of options under the company's share option scheme. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 14 is a special resolution, proposed annually, renewing the directors' authority under Section 95 of the Companies Act 1985. 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 with modifications to the requirements set out in Section 89 of the Companies Act 1985. 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 £251,416.80 which is equivalent to approximately 5% of the issued share capital at 3rd April 2006 (being the latest practicable date prior to the publication of this document). The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 15 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 Companies Act 1985 now permits the company to hold any such bought-back 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 by the legislation). Accordingly, if the company purchases any of its shares pursuant to resolution 15, the company may cancel those shares or hold them in treasury. Such decision will be made by the directors at the time of purchase on the basis of the company's and shareholders' best interest. 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 20th March 2007 was 1,159,266, which represented 1.15% of the issued share capital (excluding treasury shares) at that date. If the company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 20th March 2007 would represent 1.28% of the issued share capital (excluding treasury shares).

Auditors
BDO Stoy Hayward LLP have expressed the willingness to continue in office and, accordingly, a resolution to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the annual general meeting. This is resolution 11 set out in the notice of meeting.

By order of the board

T.J. Kite ACA
Secretary
20th March 2007

Statement of directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, 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 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. 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 IFRS.

Group financial statements
International Accounting Standard 1 requires that financial statements present fairly for each financial year the group'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 IFRS. 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 IFRS 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.

Parent company financial statements
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;

- make judgements and estimates that are reasonable and prudent; and

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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.

Report on directors' remuneration

Remuneration committee

On 23rd May 2006, Mr Yeatman stood down as a director of the company and was replaced on the committee by Mr Corbyn who then served with Mr Neathercoat under the chairmanship of Mr Farnes for the rest of the year. Following the merger with London Merchant Securities plc, Mrs de Moller and Mr Newell joined the committee. None of the members who have served during the year had any personal interest in the matters decided by the committee, nor any day to day involvement in the running of the business and, therefore, are considered to be independent.

During the year, New Bridge Street Consultants LLP provided the performance statistics required to operate the share option scheme and long term incentive plan. They provide no other services to the company. No director had any involvement in determining his own remuneration although some of the matters considered by the committee were discussed with Mr Burns.

Policy

The committee's objective in formulating the remuneration policy for the executive directors is to ensure that the company attracts, employs and motivates executives that have the skills and experience necessary to make a significant contribution to the delivery of the group's objectives.

When setting the level of remuneration, the committee aims to achieve broad comparability with other FTSE 250 companies that have delivered similar long term returns to shareholders whilst having particular regard to the levels of remuneration prevailing in the property sector.

The committee recognises the importance of aligning, as far as possible, the interests of the directors with those of the shareholders. To this end, a combination of basic salary, annual bonus and long-term incentives is used, by which the committee aims to provide a significant proportion of the directors' total remuneration through performance related elements.

Service contracts

The service contracts of Messrs Burns, Silver and Odom are dated 20th May 1997 whilst those of Messrs George and Williams are dated 31st March 1999. The contracts have no stated termination date but require 12 months' notice of termination by the company or six months notice by the executive. A provision is included whereby the company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary and benefits in kind plus a pension contribution or salary supplement of at least 20% of basic salary.

Mr Friedlos has a service contract dated 1st February 2007, which terminates when he reaches the age of 65. It is also terminable by the company giving 12 months' notice or Mr Friedlos giving six months' notice. The contract provides similar benefits as those for the other executive directors, except for the following provision. For six months from 1st February 2007, the contract preserves Mr Friedlos's right (which was previously contained in his service contract with LMS Services Limited) to terminate his employment, by giving at least one month's notice, and claim predetermined compensation of £536,758. This right arose as a consequence of the change of control of London Merchant Securities plc.

The remuneration committee reviews the service contracts periodically.

The non-executive directors do not have service contracts and are appointed for three year terms which expire as follows: Mr Ivey, 12th December 2008; Mr Neathercoat, 28th February 2008; Mr Farnes, 31st March 2009; Mr Corbyn, 23rd May 2009; Mrs de Moller and Mr Newell, 31st January 2010. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31st January 2010. 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, which are similar to those of the executive directors.

Basic salary and benefits

Basic salaries for executive directors are reviewed annually by the remuneration committee having regard to the remuneration policy set out above. Pension contributions for the six executive directors are based solely on basic salaries and paid into a defined contribution scheme. Directors may, if they so elect, receive, at no extra cost to the company, a salary supplement in lieu of their pension contribution. The principal benefits in kind comprise a company car and medical insurance.

The remuneration for non-executive directors, which consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee, is set by the whole board. Non-executive directors are not eligible for pension scheme membership and do not participate in the company's bonus or equity based incentive schemes.

Report on directors' remuneration

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

Table 1

	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	Gain on exercise of share options £'000	**2006 Total £'000**	**2006 Pension and life assurance £'000**	Over provision of 2005 bonus £'000	Revised 2005 Total £'000	2005 Pension and life assurance £'000
Executive									
J.D. Burns	420	315	38	457	**1,230**	**96**	3	986	106
S.P. Silver	350	263	24	826	**1,463**	**95**	3	821	114
C.J. Odom	270	203	12	350	**835**	**73**	2	591	70
N.Q. George	250	187	15	–	**452**	**61**	1	588	54
P.M. Williams	250	187	14	103	**554**	**62**	1	427	59
Non-executive									
J.C. Ivey	50	–	–	–	**50**	**–**	–	40	–
I. Yeatman	17	–	–	–	**17**	**–**	–	30	–
S.J. Neathercoat	38	–	–	–	**38**	**–**	–	30	–
R.A. Farnes	38	–	–	–	**38**	**–**	–	30	–
S.A. Corbyn	21	–	–	–	**21**	**–**	–	–	–
	1,704	1,155	103	1,736	**4,698**	**387**	10	3,543	403

The over provision of the 2005 bonus, which has been recognised in the 2006 results, is the amount by which the estimated amount included in the 2005 results exceeded the final award under the bonus scheme, which could only be ascertained once the results of all the comparator companies had been announced. The total remuneration for 2005, which was previously disclosed as £3,553,000, has been revised to allow a correct comparison to be made between the two years.

During the year, directors made a gain of £1,736,000 (2005: £1,179,000) on the exercise of share options.

Mr Burns received fees of £37,500 (2005: £30,000) in respect of his position as a non-executive director of The Davis Service Group plc. In accordance with the remuneration committee's policy, the fees are retained by Mr Burns.

Bonus scheme

The group bonus scheme which was introduced in 2004 has a bonus potential, in normal circumstances, of two-thirds of base salary, determined by reference to targets linked to net asset value growth. No bonus will become payable for below median performance. A further one-third of base salary will be available by determination of the remuneration committee but only where performance is considered truly exceptional.

Share option schemes

Following the approval of the Derwent Valley Holdings plc Performance Share Plan by shareholders on 20th May 2004, no further grants will be made to directors under the 1997 Executive Share Option Scheme.

Details of the options held by directors and employees under the group's share option schemes at 31st December 2006 are given in table 2 below:

Table 2

Year ended 31st December 2006

Exercise price £	Date from which exercisable	Expiry date	Directors J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total number of shares
5.530	16/4/02	15/4/09	–	–	16,500	8,750	10,750	–	36,000
5.015	14/4/03	13/4/10	–	–	19,000	11,000	13,000	–	43,000
7.235	12/4/04	11/4/11	42,000	35,000	26,500	15,000	18,000	5,500	142,000
6.725	15/4/05	14/4/12	24,000	20,250	15,000	10,750	12,250	6,500	88,750
4.265	22/4/06	21/4/13	42,000	35,000	26,000	20,500	22,500	16,500	162,500
8.590	5/7/07	4/7/14	–	–	–	–	–	20,000	20,000
10.710	26/4/08	25/4/15	–	–	–	–	–	20,000	20,000
Outstanding at 1st January 2006			108,000	90,250	103,000	66,000	76,500	68,500	512,250
Options granted during the year									
13.630	8/6/09	7/6/16	–	–	–	–	–	14,250	14,250
Exercise price £		Market price at date of exercise £							
5.530		15.12	–	–	(16,500)	–	(10,750)	–	(27,250)
5.015		15.12	–	–	(19,000)	–	–	–	(19,000)
7.235		15.12	–	(35,000)	–	–	–	(5,500)	(40,500)
6.725		15.12	–	(20,250)	–	–	–	–	(20,250)
4.265		15.12	–	(35,000)	–	–	–	–	(35,000)
4.265		15.15	(42,000)	–	–	–	–	–	(42,000)
Options exercised during the year			(42,000)	(90,250)	(35,500)	–	(10,750)	(5,500)	(184,000)
Outstanding at 31st December 2006			66,000	–	67,500	66,000	65,750	77,250	342,500
Number not exercisable									54,250
Number exercisable									288,250

In respect of options exercised during 2006, the weighted average exercise price was £5.454 and the weighted average market price at date of exercise was £15.12. No options lapsed during 2006.

Table 2 (continued)
Year ended 31st December 2005

Exercise price £	Date from which exercisable	Expiry date	Directors J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total number of shares
2.370	12/4/98	11/4/05	–	–	–	18,450	–	–	18,450
3.450	26/4/99	25/4/06	–	–	7,021	5,945	–	–	12,966
5.690	15/4/01*	14/4/08	–	–	21,500	10,500	13,500	–	45,500
5.530	16/4/02*	15/4/09	25,250	21,500	16,500	8,750	10,750	6,750	89,500
5.015	14/4/03*	13/4/10	30,000	25,000	19,000	11,000	13,000	8,000	106,000
7.235	12/4/04*	11/4/11	42,000	35,000	26,500	15,000	18,000	12,500	149,000
6.725	15/4/05*	14/4/12	24,000	20,250	15,000	10,750	12,250	10,500	92,750
4.265	22/4/06*	21/4/13	42,000	35,000	26,000	20,500	22,500	21,500	167,500
8.590	5/7/07*	4/7/14	–	–	–	–	–	27,500	27,500
Outstanding at 1st January 2005			163,250	136,750	131,521	100,895	90,000	86,750	709,166
Options granted during the year									
10.710	26/4/08*	25/4/15	–	–	–	–	–	27,000	27,000
Exercise price £		Market price at date of exercise £							
2.370		10.79	–	–	–	(18,450)	–	–	(18,450)
3.450		10.79	–	–	(7,021)	(5,945)	–	–	(12,966)
5.690		10.79	–	–	–	(10,500)	(13,500)	–	(24,000)
5.690		12.90	–	–	(21,500)	–	–	–	(21,500)
5.530		11.65	(25,250)	(21,500)	–	–	–	–	(46,750)
5.530		12.90	–	–	–	–	–	(6,750)	(6,750)
5.015		11.65	(30,000)	(25,000)	–	–	–	–	(55,000)
5.015		12.90	–	–	–	–	–	(8,000)	(8,000)
7.235		12.90	–	–	–	–	–	(7,000)	(7,000)
6.725		12.90	–	–	–	–	–	(4,000)	(4,000)
Options exercised during the year			(55,250)	(46,500)	(28,521)	(34,895)	(13,500)	(25,750)	(204,416)
4.265		–	–	–	–	–	–	(5,000)	(5,000)
8.590		–	–	–	–	–	–	(7,500)	(7,500)
10.710		–	–	–	–	–	–	(7,000)	(7,000)
Options lapsed during the year			–	–	–	–	–	(19,500)	(19,500)
Outstanding at 31st December 2005			108,000	90,250	103,000	66,000	76,500	68,500	512,250
Number not exercisable									202,500
Number exercisable									309,750

*These options were granted under the 1997 Executive Share Option Scheme.

In respect of options exercised during 2005, the weighted average exercise price was £5.072 and the weighted average market price at date of exercise was £11.71. The weighted average exercise price of options lapsed during 2005 was £8.242.

	31st December 2006	31st December 2005	1st January 2005
Weighted average exercise price of share options at	**£6.741**	£6.087	£5.677
Weighted average remaining contracted life of share options at	**5.3 years**	6.2 years	6.2 years

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. Those exercisable on 16th April 2002, 14th April 2003, 12th April 2004, 15th April 2005 and 22nd April 2006 have met this criteria. Subsequent options have yet to be tested.

The market price of the 5p ordinary shares at 31st December 2006 was £20.97. During the year, they traded in a range between £13.63 and £20.97.

Long term incentive plan

Under the Derwent Valley Holdings plc Performance Share Plan, selected individuals may receive a conditional award of shares, which will normally be released after three years subject to continued employment and the achievement of the performance conditions set out below. The rules limit annual awards to 100% of an executive's salary and details of entitlements under the scheme are as set out below in Table 3:

Table 3

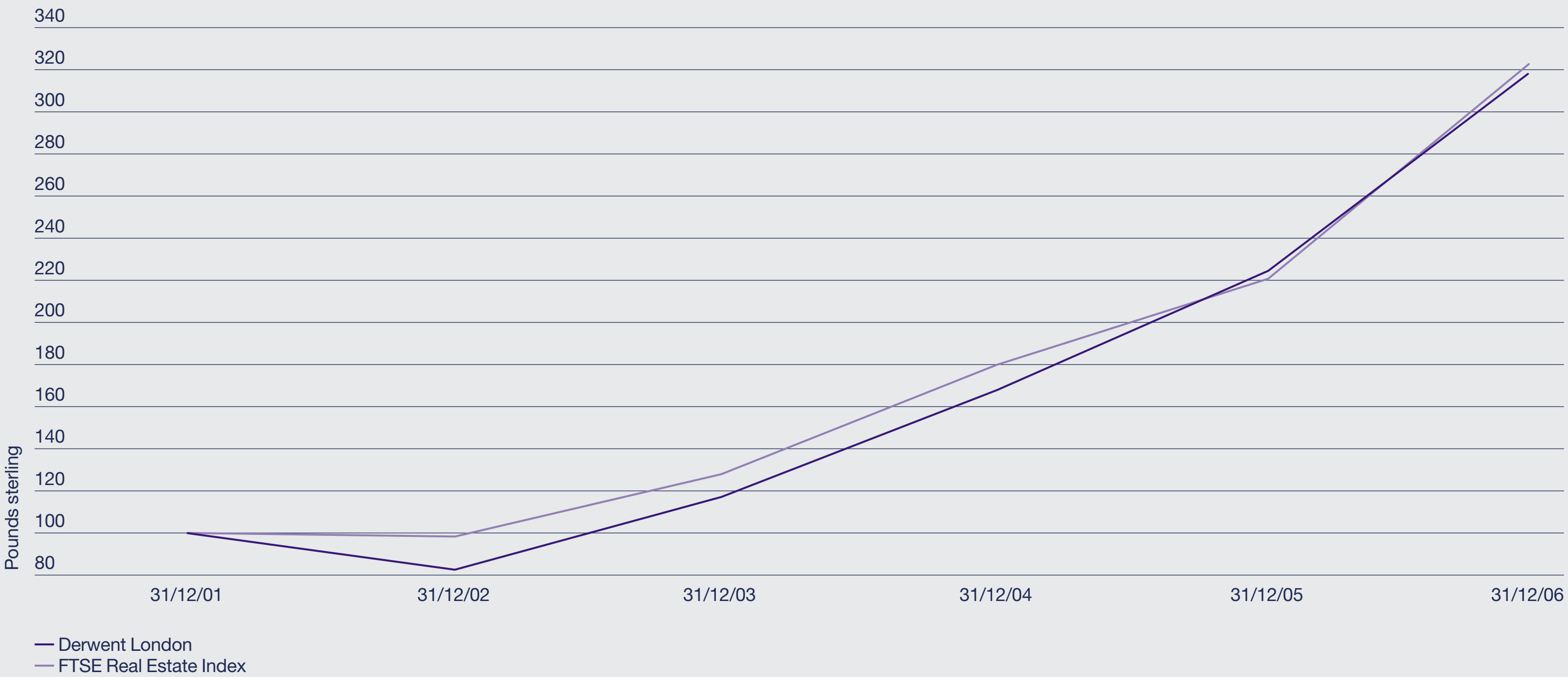
Market price at date of award £	Vesting date	Directors J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total
8.74	15/6/07	43,000	36,000	27,000	22,000	24,500	12,500	165,000
10.70	21/03/08	37,250	31,250	23,250	20,000	21,250	11,500	144,500
Interest at 1st January 2006		80,250	67,250	50,250	42,000	45,750	24,000	309,500
Shares conditionally awarded during the year:								
16.19	06/04/09	25,940	21,610	16,670	15,440	15,440	8,640	103,740
Interest at 31st December 2006		106,190	88,860	66,920	57,440	61,190	32,640	413,240

Half the shares representing an award, (Part A), vest according to the group's performance as measured by Total Shareholder Return (TSR) compared to a defined comparator group comprising the constituents, as at the date of grant, of the FTSE Real Estate Index. At the median level of performance, 25% of Part A will vest (i.e. 12.5% of the total award). At or above upper quartile performance, 100% of Part A will vest (i.e. 50% of the total award). Between these two points, vesting will accrue on a straight line basis. This element will only vest if the remuneration committee is also satisfied that the TSR performance reflects underlying financial performance.

The other half of the award, (Part B), will vest according to the group's growth in net asset value, (NAV), compared to the IPD Central London Offices Total Return Index ('the IPD Index') for the same period. If the growth in NAV is less than the IPD Index, no proportion of Part B will vest. If growth in NAV is equal to the IPD index, 25% of Part B will vest (i.e. 12.5% of the total award) and the entitlement will then increase on a sliding scale up to 100% (50% of the total award) which is achieved when NAV equals the upper quartile figure for the IPD Index.

Performance graph
Total shareholder return compared to the FTSE Real Estate Index.

Net investment 2001–2006



This graph shows the value, by the end of 2006, of £100 invested in Derwent London plc on 31st December 2001 compared to that of £100 invested in the FTSE Real Estate Index. 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. To produce a 'fair value', each point is a 30 day average of the return.

The disclosure on directors' remuneration in tables 1, 2 and 3 above has been audited as required by Part 3 of Schedule 7A of the Companies Act 1985.

On behalf of the board

R.A. Farnes
Chairman of the remuneration committee
20th March 2007

Report of the audit committee

Membership

Mr Neathercoat was chairman of the committee throughout the year. On 23rd May 2006, Mr Corbyn joined the committee when Mr Yeatman stood down as a director of the company. Mr Farnes served throughout 2006. Following the merger with London Merchant Securities plc, Mrs de Moller and Mr Newell joined the committee. All members are considered independent by the company having no day-to-day involvement with the company. Mr Neathercoat is a member of the Institute of Chartered Accountants in England and Wales and 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 meets at least three times a year to discharge its responsibilities. Meetings are attended by the group's external auditor and the group's finance director when invited.

Work of the committee

During the year, the committee has carried out the following:

- Reviewed the interim and annual financial statements and considered the appropriateness of the accounting policies used, assumptions adopted and estimates made.
- Held meetings with the group's external valuers.
- Reviewed the scope of the annual audit and the level of associated fees.
- Considered the adequacy of the auditor's statement of independence and monitored the operation of the group's policy regarding the use of the external auditor for non-audit work which helps to protect the auditor's independence and objectivity.

  A major source of non-audit work each year for the group's auditor is tax compliance work. The committee has considered this arrangement and is of the opinion that this is an efficient arrangement that does not compromise the auditor's independence. In the current year, the auditor also reviewed and reported on the group's working capital forecast in connection with the merger with London Merchant Securities plc. To preserve their independence, the auditor took the following measures:
  – the assignment was conducted by staff from the firm's corporate finance department;
  – any involvement by audit staff was in connection with matters of fact, not judgement; and
  – the arrangements were reviewed and approved by the firm's ethics partner.
  Having considered these measures and also noted that the fee income was neither material to BDO Stoy Hayward LLP nor for the credit of the current audit partner, the committee concluded that the auditor's independence was adequately safeguarded.

- Recommended the re-appointment of the group's external auditor after due consideration of the conduct of the audit and the matters raised in the management letter.
- Implemented a formal 'whistleblowing' procedure.

S.J. Neathercoat
Chairman of the audit committee
20th March 2007

Report of the nominations committee

Membership
At the start of the year, the nominations committee comprised the three independent, non-executive directors, Messrs Neathercoat, Yeatman and Farnes, under the chairmanship of Mr Ivey. On 23rd May 2006, Mr Yeatman stood down as a director of the company and was replaced on the committee by Mr Corbyn. Following the merger with London Merchant Securities plc, Mrs de Moller and Mr Newell joined the committee.

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 carry 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 to the board suitable candidates to fill vacancies for non-executive directors and, if requested, executive directors.

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

- Appraised the board and its committees.
- Discussed the composition of the post merger board with institutional investors.

J.C. Ivey
Chairman of the nominations committee
20th March 2007

Independent auditor's report

Report of the Independent Auditor To The Shareholders of Derwent London plc

We have audited the group and parent company financial statements (the 'financial statements') of Derwent London plc for the year ended 31st December 2006 which comprise the group income statement, the group and parent company statement of recognised income and expense, the group and parent company balance sheets, the group and parent company cash flow statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. Additionally, we report to you whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating review, the financial review, the report of the audit committee and the report of the nominations committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Independent auditor's report

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31st December 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December 2006;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
20th March 2007

Directors

R.A. Rayne, 57 Non-executive chairman
The Hon R A Rayne joined the board following the merger with London Merchant Securities plc where he had been chief executive since 2001. He has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc and is currently chief executive officer of LMS Capital plc, a company listed on AIM. He is also a non-executive director of Weatherford International Inc., an international oil services company quoted on the New York Stock Exchange, and chairman of Energy Cranes International Limited.

J.C. Ivey, 65 Non-executive deputy chairman
A chartered accountant, Mr Ivey is a director of RWS Holdings plc and was formerly chief executive of The Davis Service Group plc. He has served on the board since 1984 and chairs the nominations committee.

J.D. Burns, 62 Chief executive officer
Mr Burns has been a director of the company since 1984 and has overall responsibility for group strategy, business development and day-to-day operations. He is a non-executive director of The Davis Service Group plc and a partner in Pilcher Hershman & Partners, estate agents.

S.P. Silver, 56
Mr Silver has overall responsibility for acquisitions, design and development projects. He became a director in 1986 and is also a partner in Pilcher Hershman & Partners.

C.J. Odom, 56
Mr Odom joined the board in 1988. He is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting.

N.Q. George, 43
A chartered surveyor, Mr George was appointed to the board in 1998. He has responsibility for acquisitions and investment analysis.

P.M. Williams, 47
Mr Williams is a chartered surveyor and was appointed to the board in 1998. His responsibilities include asset management and supervision of refurbishment and development projects.

N.R. Friedlos, 49
Mr Friedlos joined the board following the merger with London Merchant Securities plc, where he had been a director since 2003. Previously, he was a partner at PricewaterhouseCoopers from 1992 to 1998 and finance director for Land Securities Trillium from 1998 to 2002.

S.J. Neathercoat, 58 Senior independent director
Mr Neathercoat is a chartered accountant. He joined the board in March 1999 and chairs the audit committee whilst serving on the remuneration and nominations committees. He was previously a managing director of Dresdner Kleinwort Wasserstein.

R.A. Farnes, 61 Non-executive director
Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board on 1st April 2003. He chairs the remuneration committee and is a member of the audit and nominations committees.

S.A. Corbyn, 62 Non-executive director
Mr Corbyn was appointed to the board in May 2006. He is also chief executive of the Cadogan Estate, one of the principal private estates in London, and a former president of the British Property Federation.

J. de Moller, 59 Non-executive director
Mrs de Moller joined the board following the merger with London Merchant Securities plc, where she had been a non-executive director since 2002. She is a non-executive director of Temple Bar Investment Trust plc and Archant Limited. Previously, she was managing director of Carlton Communications Plc and a non-executive director of Cookson Group plc, BT plc, AWG plc and J Sainsbury plc.

D. Newell, 64 Non-executive director
Mr Newell joined the board following the merger with London Merchant Securities plc, where he had been a non-executive director since 1998. Mr Newell was senior partner of Hillier Parker May & Rowden until 1998, co-chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services Inc until December 2000 and a past president of the British Council of Offices.

Five year summary

	IFRS*			UK GAAP		
	2006 £m	2005 £m	2004 £m	2004 £m	2003 £m	2002 £m
Gross property income	**51.3**	49.5	52.1	49.9	47.9	46.5
Net property income	**58.0**	46.6	48.0	44.8	41.5	41.9
Adjusted profit before tax†	**16.4**	16.7	18.3	16.4	16.2	17.4
Profit/(loss) on disposal of investments	**2.9**	9.6	24.9	6.4	1.6	(2.0)
Profit before tax	**242.8**	150.4	91.1	22.8	17.1	15.4
Net assets	**783.4**	606.2	495.5	554.7	477.6	512.0
Investment property valuation	**1,282.7**	1,009.8	906.2	924.8	812.1	831.9
Revaluation surplus/(deficit)	**223.3**	124.1	46.4	66.9	(39.6)	(29.3)
Net debt	**349.8**	303.9	341.5	319.3	301.8	296.8
Cash flow	**(59.4)**	34.5	(17.9)	(17.9)	(5.0)	(25.8)
Net cash (outflow)/inflow from operating activities	**(5.6)**	13.7	12.9	12.9	11.7	23.5
Acquisitions	**48.9**	40.3	88.7	88.7	59.1	15.9
Capital expenditure on properties	**18.9**	26.7	26.1	26.1	24.0	35.0
Disposals	**31.2**	97.8	76.9	76.9	76.5	16.9
Adjusted earnings per share (p)†	**24.83**	26.23	29.91	23.51	26.62	25.50
Dividend per share (p)	**13.95**	12.83	11.70	12.50	11.40	10.40
Adjusted net asset value per share (p)†	**1,770**	1,335	1,074	1,068	920	982
Net asset value per share (p)	**1,460**	1,134	930	1,041	898	963
Total return (%)	**33.6**	25.5	17.2	17.4	(5.2)	(2.7)
Gearing						
Balance sheet (%)	**44.7**	50.1	68.9	57.6	63.2	58.0
Profit and loss	**1.85**	1.84	1.85	1.76	1.87	1.96

*The figures for 2004, 2005 and 2006 above have been prepared under IFRS and therefore are not directly comparable with the prior year UK GAAP figures for 2002 to 2004.
†As defined in financial highlights on page 2.

Notice of annual general meeting

Notice is hereby given that the twenty-third annual general meeting of Derwent London plc will be held at The Westbury Hotel, Bond Street, London, W1A 4UH on 23rd May 2007 at 10.30am for the following purposes:

Ordinary business

1 To receive the report of the directors and the accounts for the year ended 31st December 2006 and the independent auditor's report thereon;
2 To approve the report of the remuneration committee for the year ended 31st December 2006;
3 To re-elect Mr N.Q. George as a director;
4 To re-elect Mr P.M. Williams as a director;
5 To re-elect Mr S.J. Neathercoat as a director;
6 To elect Mr S.A. Corbyn as a director;
7 To elect Mrs J. de Moller as a director;
8 To elect the Hon R.A. Rayne as a director;
9 To elect Mr N.R. Friedlos as a director;
10 To elect Mr D. Newell as a director;
11 To re-appoint BDO Stoy Hayward LLP as auditor of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to determine its remuneration.

Special business

To consider and, if thought fit, pass the following resolutions, resolutions 12 and 13, as ordinary resolutions and resolutions 14 and 15 as special resolutions.

12 That the company may serve any notice or send or supply any other document or information to a member by making the notice, document or information available on a website or by sending or supplying it in electronic form (within the meaning of Section 1168 of the Companies Act 2006).

13 That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,676,112 provided that this authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution except that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired;

14 That the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred upon them by the previous resolution and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the said Act as if Section 89(1) of the said Act did not apply to such allotment, provided that the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders (excluding any shareholder holding shares as treasury shares) where the equity securities respectively attributable to the interests of such ordinary shareholders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical difficulties arising in any overseas territory, or by virtue of the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £251,416.80,

and shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution except that the company may before the expiry of the power conferred by this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired; and

15 That the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the company provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 10,056,672;
(ii) the minimum price (exclusive of expenses) which may be paid for any such ordinary share is 5p;
(iii) the maximum price (exclusive of expenses) at which any such ordinary share may be purchased is the higher of (i) an amount equal to 105% of the average of the middle market prices shown in the quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC No.2273/2003); and
(iv) the authority to purchase hereby conferred shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution save that the company may before such expiry enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiration of this authority and a purchase of shares may be made in pursuance of any such contract.

By order of the board

T.J. Kite, ACA
Secretary
20th April 2007

25 Savile Row
London
W1S 2ER

Notes:
Entitlement to attend and vote
The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 6pm on 21st May 2007 shall be entitled to attend or vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 21st May 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. The proxy need not himself be a member. A form of appointment of a proxy is enclosed.

As at 3rd April 2007 (being the latest practicable date prior to the publication of this document), the company had 100,566,724 ordinary shares of 5p each in issue, none of which were held in treasury. The ordinary shares carry in aggregate 100,566,724 voting rights.

Appointment of proxies through CREST
CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting to be held on 23rd May 2007 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID7RA01) by the latest time(s) for receipt of proxy appointments, being 10.30am on 21st May 2007. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Documents available for inspection
Copies of the contracts of service relating to Messrs J.D. Burns, S.P. Silver, C.J. Odom, N.Q. George, P.M. Williams and N.R. Friedlos, and the terms and conditions of appointment of the non-executive directors, will be available for inspection by members at the company's registered office during usual business hours on any weekday (public holidays excluded) from the date of this notice until the time of the annual general meeting and also at The Westbury Hotel during the annual general meeting and for at least fifteen minutes prior to the meeting. The register of the directors' (and their families') interests in the ordinary shares of the company will also be available for inspection at The Westbury Hotel during the fifteen minutes prior to the meeting and throughout the meeting.

Financial calendar

Annual general meeting	23rd May 2007
Anticipated REIT conversion	1st July 2007
Announcement of 2007 interim results	September 2007
Payment of 2007 interim dividend	November 2007
Announcement of 2007 preliminary results	March 2008

Advisers

Auditor
BDO Stoy Hayward LLP

Solicitor
Slaughter and May

Brokers
UBS
JP Morgan Cazenove

Clearing banker
HSBC Bank plc

Registrar
Lloyds TSB Registrars

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