REPORT & ACCOUNTS 2016

DERWENT LONDON PLC

Derwent London plc is the largest central London focused REIT.

Over many years, we have built up a £5 billion predominantly office portfolio in 14 'villages' in **London's West End** and **Tech Belt**. The majority of the portfolio is income producing, balanced between regenerated properties with further upside potential and properties for future redevelopment. Our business is founded on a **strong balance sheet with low leverage and flexible financing**. We aim to provide **above average long-term returns** for our **shareholders**, while **delivering benefits** for all our other **stakeholders**.

Our portfolio balance and **resilient business model** mean we are well placed to deal with the significant changes being seen in today's office market.

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

OTHER INFORMATION

20 FARRINGDON ROAD EC1

The Group acquired a long leasehold interest in this 170,000 sq ft property in February 2015 for £92.7m. We have since painted the façade and refurbished half the office space, adding a new entrance and terraces. This has increased net rental income from £3.2m to £6.2m with a further £0.6m of ERV still available to let. The building sits opposite the entrance to Farringdon Crossrail station (opening in 2018) and there is the longer term possibility to add additional space. In two years we have completed our short term objective, virtually doubling our income.

1 Strategic report

At a glance

In 2016 **the Group achieved £31.4m of new lettings**, generated strong recurring earnings growth and is proposing a **substantial increase in the final dividend**.

Net assets

£4.0bn

2015: £4.0bn

Maintained net asset value

In a year of market uncertainty caused partly by the EU referendum, we have maintained net asset value (NAV), demonstrating the resilience of our business model.

Portfolio valuation[1]

£5.0bn

2015: £5.0bn

Revaluation (deficit)/surplus

£(37.1)m

2015: £650.0m

Active asset management

The impact of a 31bp outward yield shift was partially offset by 5.1% rental value growth, lettings, rent reviews and development profits.

Profit for the year

£53.6m

2015: £777.2m

Operational earnings growth

8%

2015: 25%

Growth in earnings from operations

As a result of an increase in net property income and lower finance costs, EPRA earnings per share (EPS) grew by 8%.

EPRA EPS

76.99p

2015: 71.34p

Growth in final dividend

25%

2015: 10%

Increased cash returns to shareholders

Strong earnings growth in recent years and letting activity that has considerably de-risked the development pipeline have enabled us to propose a 25% increase in the final dividend.

Dividend per share

52.36p

2015: 43.40p

Total return

1.7%

2015: 23.0%

Positive total return despite market uncertainty

NAV growth and dividends paid in 2016 provided a total return of 1.7%.

EPRA NAV per share

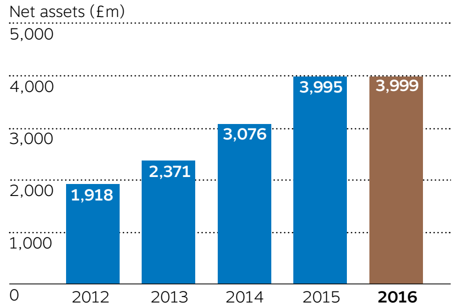
3,551p

2015: 3,535p

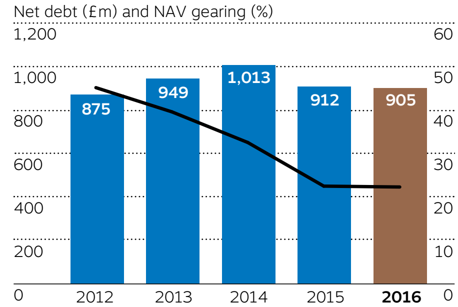
Our approach to sustainability

Read more on page 66

Net assets (£m)



Net debt (£m) and NAV gearing (%)



[1] Including Group share of joint ventures.

We are proposing a special dividend of 52p per share to be paid along with the final dividend in June 2017.

Our strategic objectives

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

Read more on page 18

Net interest cover

370%

2015: 362%

Maintained strong financial ratios

We recycled capital by funding £213.5m of capital expenditure through cash raised from property disposals, thereby retaining low gearing levels.

LTV ratio

17.7%

2015: 17.8%

Disposal proceeds

£224.7m

2015: £277.2m

Property disposals above book value

We raised £224.7m of cash from property disposals in 2016. Net proceeds from four major investment property sales completed after the EU Referendum were £199.0m, 2.3% above December 2015 book value.

Profit on disposal of investment property

£7.5m

2015: £40.2m

Cash & undrawn facilities

£383m

2015: £269m

Strengthened financial capacity

We arranged £105m of long-term fixed rate debt in 2016 and had a weighted average maturity of borrowings at the year end of 7.7 years.

Average maturity of borrowings

7.7 years

2015: 7.3 years

New lettings

547,500 sq ft

2015: 523,800 sq ft

Record lettings

We set a new record for lettings during a year – 63 transactions on floorspace of 547,500 sq ft with annual income of £31.4m. Available space remained low at 2.6%.

EPRA vacancy rate

2.6%

2015: 1.3%

Contracted net rent

£150.3m

2015: £137.1m

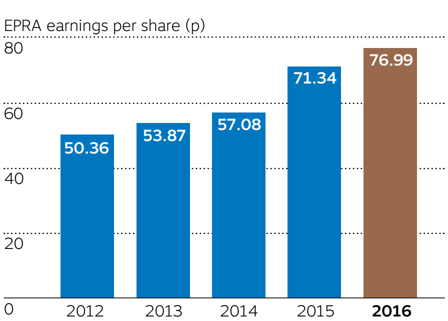
Increased contracted rental income

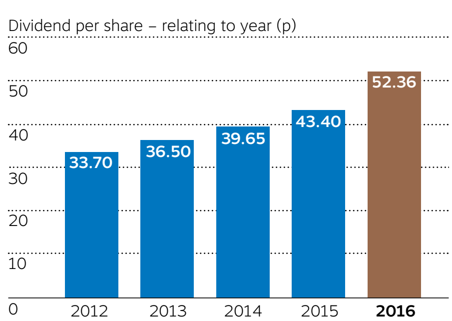
We converted £19.9m of rental reversion into cash flow during the year, taking the contracted rent roll to £150.3m at 31 December 2016.

EPRA like-for-like net rental income

5.7%

2015: 5.2%





Our experienced team

Read more on page 68

98% of our portfolio is located in **central London**, grouped in **14 'villages'**, each with its own individual identity. 63% can be found in the **West End** and 35% in the **City Borders**. The balance relates to properties and land held on the northern outskirts of Glasgow in Scotland.

91
Buildings

6.0m sq ft[1]
Area

[1] Includes 1.0m sq ft of on-site developments.

c.700
Leases

c.450
Tenants

£150.3m
Contracted net rental income
2015: £137.1m

£284.5m
Estimated rental value[1]
2015: £278.1m

[1] After additional capex of £363m.

3.4%
EPRA net initial yield
2015: 3.1%

4.8%
True equivalent yield
2015: 4.5%

6.5 years
2015: 7.0 years
WAULT[1]

7.8 years
2015: 7.3 years
WAULT[1] including pre-lets

[1] Weighted average unexpired lease term.

Our portfolio

Paddington

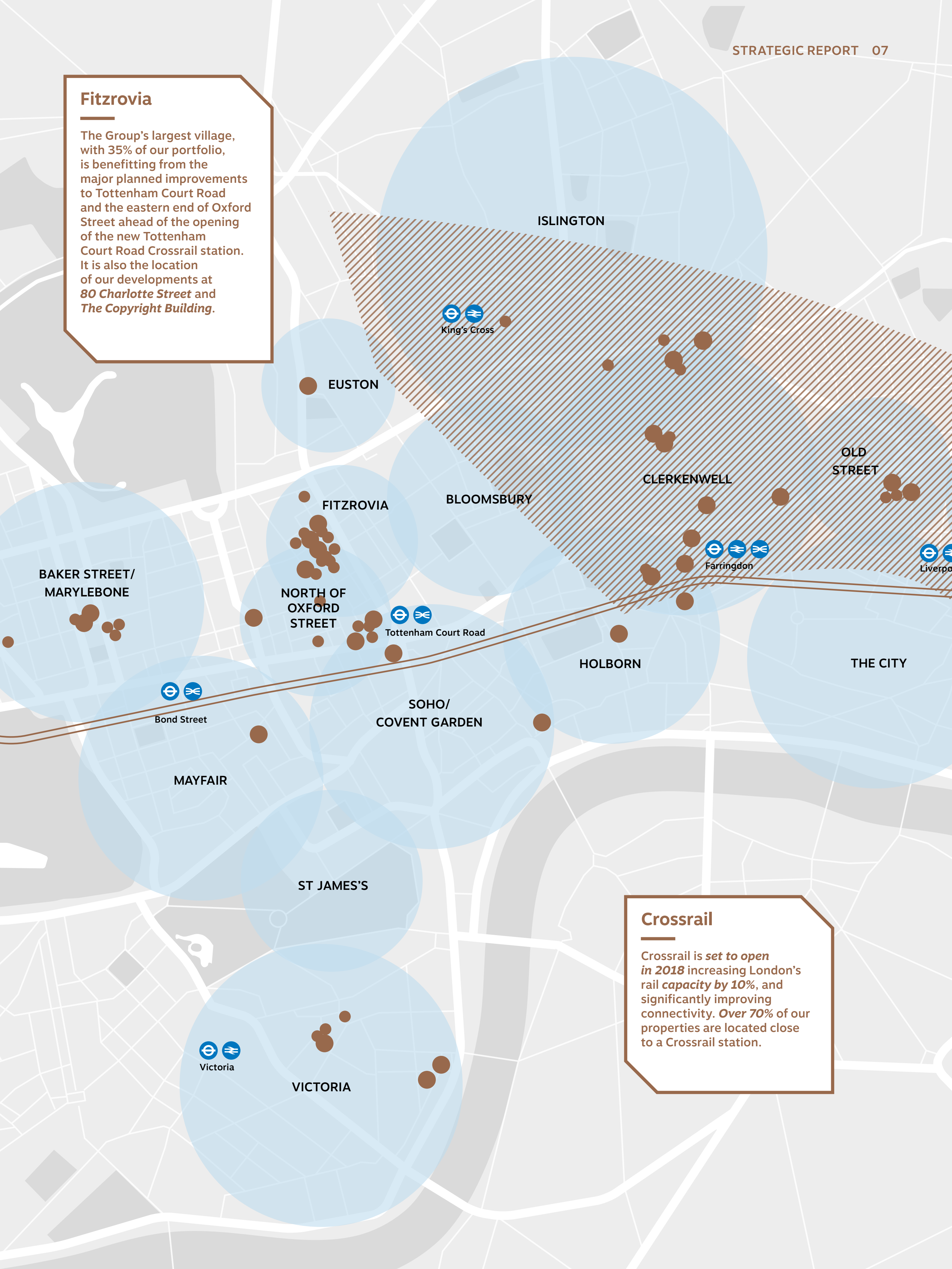
Site of ***Brunel Building***, opposite new Crossrail entrance, for completion in 2019.

Property values

Over £200m	22%
£100-£200m	41%
£50-£100m	22%
Below £50m	15%

Fitzrovia

The Group's largest village, with 35% of our portfolio, is benefitting from the major planned improvements to Tottenham Court Road and the eastern end of Oxford Street ahead of the opening of the new Tottenham Court Road Crossrail station. It is also the location of our developments at ***80 Charlotte Street*** and ***The Copyright Building***.

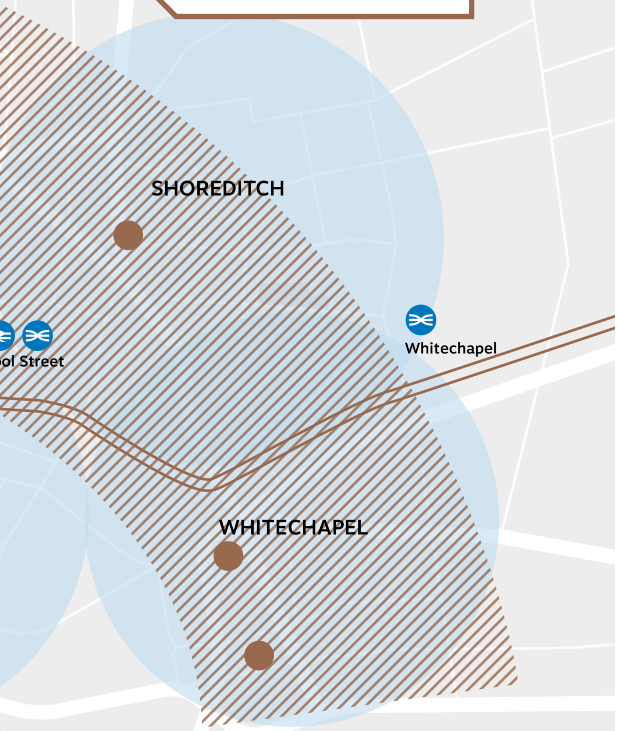


Crossrail

Crossrail is ***set to open in 2018*** increasing London's rail ***capacity by 10%***, and significantly improving connectivity. ***Over 70%*** of our properties are located close to a Crossrail station.

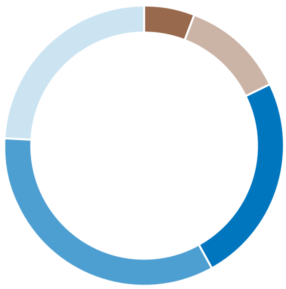
Tech Belt

We own a number of clusters in this vastly improved area of London, all located close to transport hubs. Combined, these assets represent 42% of our portfolio. These hubs include ***Angel*** and ***Farringdon*** as well as ***Old Street Roundabout*** and ***Shoreditch***.



Central London office rent banding

'Topped-up' income %



£0-£30 per sq ft	6
£30-£40 per sq ft	12
£40-£50 per sq ft	24
£50-£60 per sq ft	34
£60+ per sq ft	24

Our villages

Fitzrovia[1]	35%
Victoria	11%
Baker Street/Marylebone	4%
Paddington	2%
Soho/Covent Garden	1%
Mayfair	1%
Islington/Camden	**9%**
Clerkenwell	**11%**
Old Street	**10%**
Shoreditch/Whitechapel	**8%**
Holborn	**4%**
Holborn (non-Tech Belt)	2%
Provincial	2%

[1] Includes North of Oxford Street and Euston.

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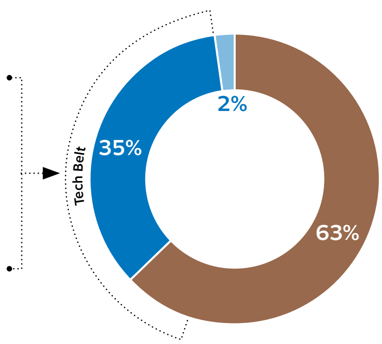
Portfolio weighting

West End	**63%**
City Borders	**35%**
Provincial	**2%**



Ten principal tenants

% of rental income[2]

Burberry	7.5
Arup	4.7
Expedia	4.3
Government	4.0
Cancer Research UK	3.8
Publicis Groupe	3.5
WPP Group	3.1
Regus	2.6
FremantleMedia Group	2.4
The Office Group	1.7

[2] Based upon contracted net rental income of £150.3m.

Tenant diversity[3]

Media, TV, marketing and advertising	30
Professional and business services	23
Retail head offices and showrooms	18
Retail sales	10
Charities	4
Government and public administration	4
Financial	3
Other	8

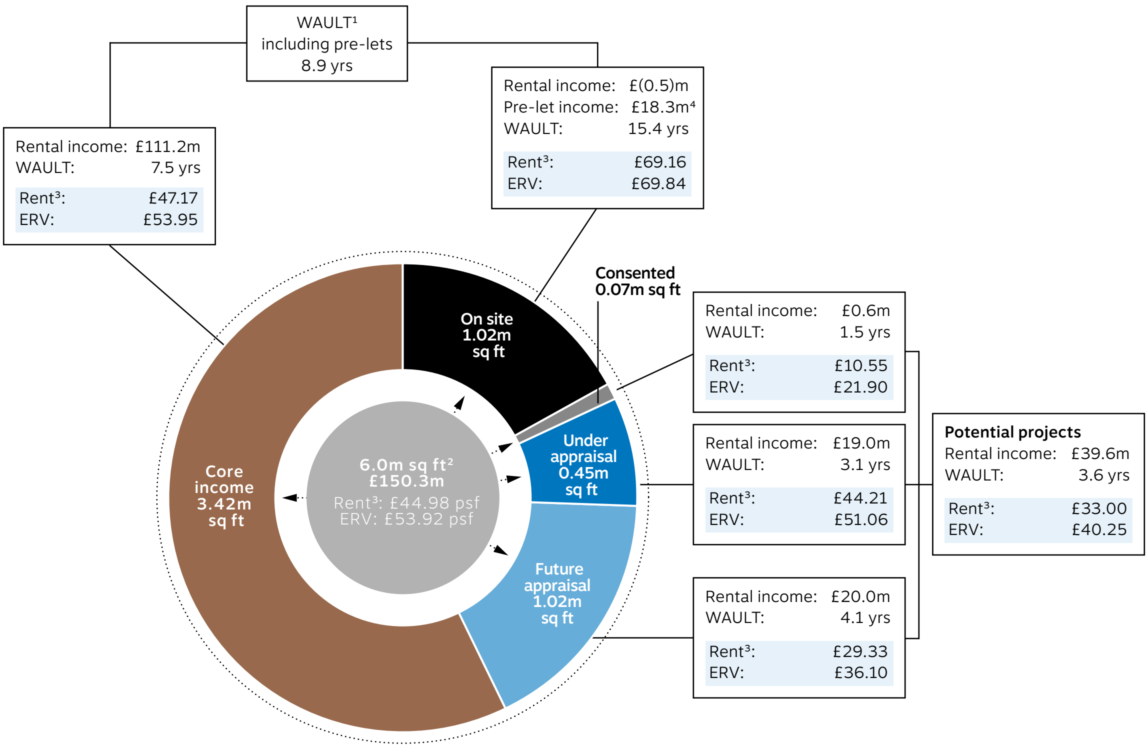
[3] Expressed as a percentage of annualised rental income of the whole portfolio.

Key

- Villages
- Tech belt
- Derwent London properties
- Crossrail

Portfolio summary

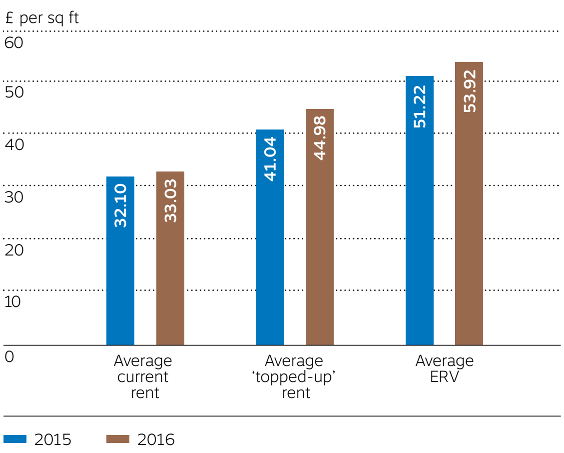
Average lease length of 6.5 years (7.8 years including pre-lets)



1 Weighted average unexpired lease term.
2 Comprises 5.0m sq ft of existing buildings plus 1.0m sq ft of on-site developments.
3 'Topped-up' office rent psf.
4 As at 31 December 2016.

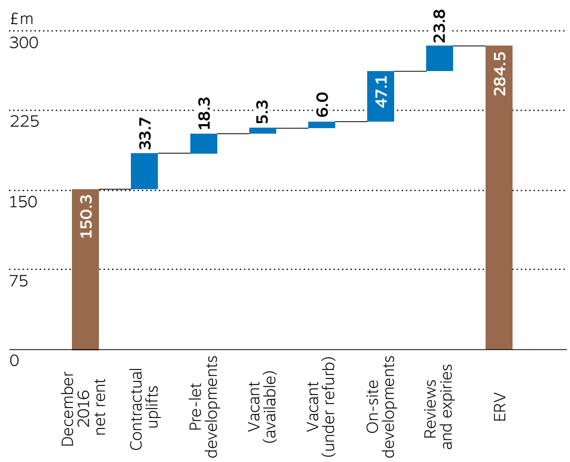
Central London office rent profile

Portfolio's average rents are undemanding



Build-up of reversion rental uplift

The Group's reversion could add 89% to cash rents



Q1

The Copyright Building

The Copyright Building W1
In February 2016 the office element was pre-let to Capita on a 20-year lease at £7.4m pa, an average of £86 per sq ft.

80 Charlotte Street W1
A revision to the planning permission has reduced construction risk, and will enable us to create 2.9 metre floor to ceiling heights on the whole space and provide more efficient floor plates.

Planning success
During Q1 we received two major planning consents. At Monmouth House EC1 we have the ability to replace the existing 69,000 sq ft with a new 125,000 sq ft building beside White Collar Factory. At Balmoral Grove N7 we secured planning for a residential scheme. This latter site was sold profitably in Q4 for £24m.

Long-term debt arranged
In February we arranged £105m of 12-15 year money via a US Private Placement with three new lenders. This further broadened our sources of debt and extended our average debt maturities.

Link to business model

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

Year in review

In a year of significant political change, including the EU referendum, Derwent London's business continued to make good progress. We set a **new record for lettings**, completed **four refurbishments** and **progressed four developments**. We raised rental income and extended our debt maturities. At the same time we broadened our **support to local communities**, and our business and developments **won a number of awards**.

Completed refurbishments
The White Chapel Building E1
20 Farringdon Road EC1
78 Whitfield Street W1
78 Chamber Street E1

On-site developments
White Collar Factory EC1
The Copyright Building W1
80 Charlotte Street W1
Brunel Building W2

Q2

White Collar Factory

White Collar Factory EC1

Letting momentum in the 16-storey tower was maintained throughout the year; Adobe took two floors in Q1 and in Q2 the 9th and 10th floors were let to Capital One. Runpath and Spark44 joined the roster of tenants in the second half of the year. As a result, the scheme went from 29% to 65% pre-let during 2016, with the tower 74% pre-let at the year end.

Revolving facility extended

In June we exercised the first one-year extension option on the £75m Wells Fargo revolving facility, extending the term date to July 2021.

Local commitment

We launched the first tranche of our Tech Belt community fund, which runs alongside our successful Fitzrovia community fund, now in its third year. Together these represent a £550,000 commitment to support local causes.

Q3

The White Chapel Building

The White Chapel Building E1

By the end of September we had pre-let 75% of Phase 1, with two thirds of these lettings achieved after the EU referendum. Lettings included GDS, Perkins+Will, Reddie & Grose, Shipowners' Club and Unruly.

Post-referendum disposal

In September we sold 75 Wells Street W1 for £40m.

Reporting awards

We won EPRA Gold Awards for Financial Reporting and Sustainability for the fourth year in succession.

Q4

Disposal activity continues

In November we sold Tower House WC2 for £66m and in December we sold 120-134 Tottenham Court Road W1 for £69m, taking our investment sales to £208m. On average these sales were in excess of book value with 98% exchanged or completed after the EU referendum.

Brunel Building W2

Immediately following the EU referendum we considered pausing this development following the completion of groundworks. The level of our letting activity elsewhere in the portfolio, together with the relatively low breakeven rent, has led to our decision to continue with the project.

Refurbishments completing

During the year we finished 326,000[1] sq ft of refurbishments, the majority of which completed in Q4. Principal projects were The White Chapel Building E1, 20 Farringdon Road EC1, 78 Whitfield Street W1 and 78 Chamber Street E1. These refurbishments are currently 71% let.

Revolving facility extended

In December we exercised the second one-year extension option on £450m of the £550m revolving facility, extending the maturity to January 2022. An accordion option was agreed on the remaining £100m which could extend the maturity to the same date.

[1] Adjusting for joint venture interest.

Brunel Building

Chairman's statement

Our **2016 results** demonstrate the resilience of our business model. **Derwent London** successfully delivered its **operational strategy** throughout 2016 **with record lettings** despite significant political change and the ensuing uncertainty.

Robert Rayne
Chairman

Overview

Derwent London delivered its operational strategy successfully throughout 2016 despite a background of significant political change and the ensuing uncertainty originally stemming from June's EU referendum. 2016 was another record year of lettings for us which, combined with those achieved in recent years and reduced finance costs, resulted in an increase in EPRA earnings per share for the year of 7.9% to 76.99p.

Today's results demonstrate the resilience of our business model which is underpinned by continued demand for our well designed mid-market product in improving locations. We have a strong financial base, and an investment market that allows the balance between secure income and development opportunity to be maintained. In addition, we have talented and experienced people across the business with well established relationships with occupiers, third party professionals and local communities. These strengths are the result of considerable investment which has helped reinforce the Group's reputation, culture and brand.

Over the last few years we have looked to bolster the recurring earnings side of our total return model and this year's increase should be seen as a continuation of the substantial growth achieved in 2015. We have also significantly de-risked our development pipeline over recent months, and together, these two strategies have enabled us to recommend raising the final dividend by 25.0% to 38.50p, which takes the full year dividend to 52.36p. At this level the dividend will be covered 1.5 times by recurring earnings, and our average annual dividend growth since we converted to a REIT has been 9.8%. In addition, following the value-enhancing transactions announced today, we are proposing a special dividend of 52p per share to be paid along with the final dividend in June 2017.

The change in market sentiment in the second half of the year resulted in considerable share price weakness across the sector and a fall in the underlying value of our portfolio by 1.7% since June and 0.2% for the year. However, as stated above, the Group's recurring earnings have seen a strong increase and generated a positive total return for the year. Consequently the EPRA diluted NAV at 31 December 2016 was marginally higher at 3,551p per share, an increase of 0.5% over the year.

Whilst overall take-up in London offices slowed in 2016, our letting activity captured £31.4m pa of rental income on 547,500 sq ft, which surpassed our previous record achieved in 2015 by 16%. Despite a quieter period around the EU Referendum activity was spread evenly between the first and second halves.

The ongoing resilience of our particular markets, together with the Group's financial strength and the attractive potential returns of the Brunel Building development in Paddington W2, gave us the confidence to continue with this project. Overall, we incurred £213.5m of capital expenditure on our development projects during 2016 and at the year-end we were on site at four, Brunel Building W2, 80 Charlotte Street W1, White Collar Factory EC1 and The Copyright Building W1. Capital expenditure in 2017 is estimated at £158m, with no major schemes due to start.

The second half of the year saw a significant devaluation of sterling and an increase in overseas demand focussed on properties that produce long-term income. We took advantage of this supportive market and made 98% of our total investment sales of £208.0m after June. Overall, these disposals produced a 3.7% surplus over December 2015 book value.

During the year we extended the maturity of our debt through the issue of £105m of bonds in a US Private Placement and the extension of both our bank facilities. At the year end our financial position remained strong with interest cover of 3.7 times and LTV of 17.7%, while our undrawn facilities and cash exceeded our future capital expenditure on committed projects.

Our Sustainability Report, which is published simultaneously with the Annual Report, demonstrates the further progress we have made in this area. A major part of our sustainability programme is our work on relationships with our communities. We are therefore pleased to have extended our commitment by inaugurating a Tech Belt Community Fund to operate alongside our similar long-standing arrangement in Fitzrovia. Given the importance that the Group attaches to its sustainability performance, it was pleasing to be ranked 12th overall and top in the UK in Corporate Knights Global 100, an annual list of the world's most sustainable companies announced at the recent World Economic Forum at Davos.

One of the Group's distinctive features is its focus on innovative design and this has again been recognised externally with two recent schemes, Turnmill and White Collar Factory, both winning awards.

Team

I would once again like to thank the Derwent London team for their continued expertise, enthusiasm and dedication without which these results would not have been possible.

The Board

Stuart Corbyn, who has served as a non-executive Director of the Company since 2006, is due to step down from the Board at the forthcoming AGM in May 2017. I would like to thank him for the advice and sound judgement that he has provided throughout this period. The Nominations Committee has started the process of finding a replacement for Stuart to allow a smooth transition. We anticipate making further announcements concerning this matter over the next few months.

Outlook

We expect much of the current economic uncertainty to persist as UK–EU negotiations are likely to be protracted. How this impacts on London businesses remains to be seen but, so far, activity has been surprisingly resilient with UK economic activity improving in the second half. However, although we believe that it is right to remain cautious and have positioned the business accordingly, we have limited space currently available and our product and locations continue to attract good occupational and investment demand.

Robert Rayne
Chairman
28 February 2017

London's enduring appeal

London's economy and population has grown significantly in the last thirty years. It has benefitted from the **deregulation** and subsequent **expansion** of the **financial sector**, and more recently from the **growth** of the **creative industries**.

London has attracted both human and financial capital over recent years driving population growth, economic expansion and the creation of many new businesses, particularly in the services and creative sectors. This has helped to regenerate parts of the city which were previously less popular. As a major global hub London has also performed strongly compared with many European cities. Britain's decision to vote to leave the EU may present challenges to this position and the majority of Londoners voted to remain. However, we are confident that, although in the medium term some jobs may be repatriated to the EU, in the longer term London could benefit from UK's potentially increased flexibility.

London's attractions are broad based

London's population and workforce

London's population totals around 8.8m and is ethnically diverse. The population is expected to grow to 10m by 2028.

The workforce totalled 5.7m in 2016 which is 0.7m more jobs than the previous 2008 peak[1].

London is a leading global centre for talent and high skills employment. 1.5m Londoners work in knowledge-based sectors, 47% of the combined total of the next five top European cities[2].

London's economy

London's gross value added (GVA) increased 2.4% in 2016 and is expected to grow between c.1.5-2.5% pa over the next three years.

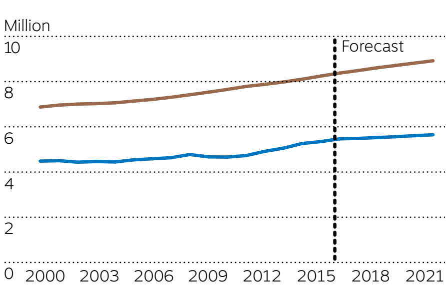
It is the pre-eminent business capital in Europe benefitting from its time zone, the wide understanding of the English language and its legal system. It is home to 40% of the European headquarters of the world's top companies[2]. Oxford Economics estimates 200,000 people are employed in London's tech sector and recently Apple, Expedia, Facebook and Google among others have confirmed new headquarter investments.

Education and cultural attractions

London has some of the best higher education facilities with several universities ranked among the best in the world. In 2015, Imperial College and University College London were ranked in the top ten with King's College 21st and LSE 38th[3].

London boasts numerous attractions: four UNESCO world heritage sites, museums, theatres, opera houses, sporting venues and world-class retail. It has c.8,000 restaurants with cuisine from 70 countries. It was ranked Europe's most popular tourist destination in 2016[4], with 19.9m visitors.

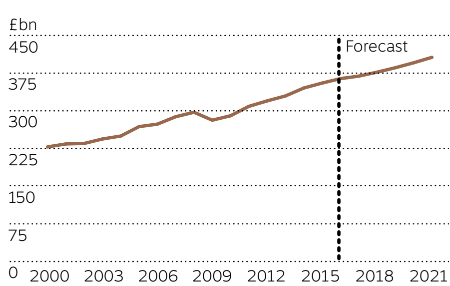
Number of people



Total population
Total workforce

Source: Experian

GVA



Source: Experian

[1] ONS.
[2] Deloitte 'London crowned business capital of Europe' 2014.
[3] QS World University Rankings 2015.
[4] Mastercard 2016.

Fitzrovia

> "We see a lot of opportunity in London given the continued growth of ecommerce and technology industries and the strong pool of talent in the city."
>
> Expedia group

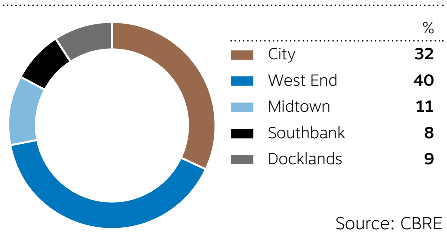
Major office market

London's office market totals 225m sq ft, with the West End and City representing 72% of the total. Around 75% of the West End office stock lies in conservation areas which limits development opportunities. This compares to c.33% in the City.

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

Our share of London's office market is 2.2%.

Central London office stock



Source: CBRE

Sources of office take-up

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

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

	%
Creative Industries	25
Banking & Finance	21
Business Services	19
Professional	11
Consumer Services & Leisure	9
Public Sector/Regulatory Bodies	7
Insurance	4
Manufacturing, Industrial and Energy	4

Source: CBRE

Central London office cyclicality

The London office market has proven to be cyclical over time, and is influenced by a number of external and internal factors. After six and a half years of growth, capital values turned in June 2016 and fell 1.8% in the second half of the year, to record -0.7% for the year. Rental values continued to rise in the second half to show growth of 3.6% in the year.

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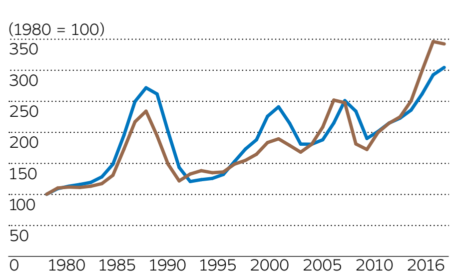


Source: MSCI IPD

London's enduring appeal

continued

Crossrail opens in 2018

© Crossrail

London's growth has stimulated strong demand for space in recent years with resulting price rises and Derwent London's portfolio has seen increasing rents and low vacancies. This growth produces challenges for our occupiers, suppliers and contractors and it is also one of the main reasons that business rates in central London are due to rise significantly in April 2017. The market may cool in the future but we believe that the positioning of our well designed, middle-market rental buildings, our active ongoing management and long-term commitment to projects means we are relatively well placed to capture demand.

The concerns over affordability, accommodation, transport, pollution and inequality were highlighted in the Mayoral election in May 2016. The new mayor Sadiq Khan has made building more homes his 'single biggest priority'[1], and this may impact the planning process with a greater focus on affordable residential delivery.

Progress continues to be made improving London's transport infrastructure. The opening of the Elizabeth Line (Crossrail) in 2018 will add c.10% to London's rail network. The next major rail project to start will be HS2, which will improve London's rail connections with the north of the country. The government, after many years of consultation, has opted to approve the expansion of Heathrow with a third runway. Despite this, Gatwick has plans for considerable investment, and the mayor and the UK Government have approved plans for the expansion of London City airport. These moves should ensure that London remains well served by rail and air.

Following the result of the EU referendum, the UK is expected to trigger Article 50 in March 2017. The uncertain outcome of the ensuing negotiations has created new concerns for London's future. At the heart of any negotiations on leaving the EU lie its four freedoms of movement: goods, services, capital and labour. London's economy has taken advantage of these and therefore is likely to suffer if they are affected. The two most relevant issues to London appear to be:

1. Access to the single market

London's success as an international financial and insurance centre has proved an important part of its economy. It is feared that London may lose access to parts of the EU market as part of the Brexit terms. This could lead to the relocation of services and staff to other EU cities, thereby reducing demand for London offices and potentially creating office vacancies. The majority of financial services jobs are located either in the financial centre of the City of London or Canary Wharf, two London markets where Derwent London has no direct exposure.

2. Immigration

Almost three times the national average of foreign nationals live and work in London and net immigration is seen as a major factor behind its recent population and economic growth[2].

Our holdings are benefitting from close proximity to key stations such as Farringdon, Tottenham Court Road and Paddington.

At present, the terms under which the UK will leave the EU remain very uncertain, with the UK Government still to exercise Article 50 and both France and Germany, amongst others, facing national elections later in the year. In the meantime the UK and London economies have remained resilient and there has been good demand for our mid-market offices. However we expect some caution to prevail until the UK's future relationship with the EU becomes clearer.

Derwent London's positioning with potential occupiers

Our approach

We carefully determine the leasing and marketing strategy for each of our buildings early in the design process. We continually review the market and adapt our strategy and aspirations accordingly. At White Collar Factory, for instance, we started place-making and branding four years before the buildings were due to complete and undertook three phases of marketing.

Where we undertake early pre-letting, we endeavour to let the lower parts of the building first and, where possible, incorporate a variety of innovative ideas such as index-linked uplifts and flexibility on assignments and underletting. This helps with more proactive asset management opportunities for the future.

Brand

The success of White Collar Factory and The White Chapel Building in terms of pre-letting has reinforced awareness of our brand within the market. It also demonstrates our ability to transact quickly and at the right price. The strength of the brand is embedded within the community of property agents who advise and undertake the majority of transactions on behalf of tenants. Our innovative and considered designs, coupled with generous volumes, communal terraces and sustainable, 'wellbeing-led' workplaces are characteristics that occupiers appreciate.

Connectivity

We were one of the first UK landlords to embrace and pursue the WiredScore accreditation, a rating scheme that certifies the internet connectivity and infrastructure of a building. We were delighted to receive the first European Platinum level certification for our White Collar Factory development.

Crossrail proximity

Occupiers are actively pursuing options close to Crossrail stations as this major infrastructure project nears completion. Many of our holdings are benefitting as over 70% are within 800 metres of a Crossrail entrance; notable amongst these are our Farringdon station cluster, 80 Charlotte Street (Tottenham Court Road station) and Brunel Building (Paddington station). In addition, we believe there is still latent value, particularly in our retail holdings on Oxford Street, which will be released once the line is open.

Occupier trends

We listen regularly to both our existing tenant base and those in the wider business community. We try to anticipate trends and incorporate them early into our designs, such as the provision of open space (including roof terraces), public realm enhancements (the public square at Old Street Yard and 'pocket park' at 80 Charlotte Street), vertical connectivity and interesting reception/lobby spaces which double up as communal spaces.

Out of the blocks early

Although the markets slowed immediately after the EU Referendum, the proactive pre-letting strategies we had across our key developments helped propel momentum in the second half of the year. Our vacancy rate is low, and as Brunel Building and 80 Charlotte Street will not be delivered until 2019, we have time to secure early pre-lets and push forward with our campaigns, which will benefit from on-site marketing suites. The pre-let to Arup at 80 Charlotte Street announced after the year end demonstrates the success of our strategy.

[1] A Manifesto for all Londoners March 2016.

[2] Working Capital 'The role of migrant workers in driving London's economy' Cebr November 2016.

Creating value: our business model

INPUTS

Assets
There are significant opportunities within our £5bn portfolio of 91 properties, mainly in London's West End and Tech Belt, to capture reversion and create value.

Financial resources
The Group is financed through a combination of shareholder capital and borrowings from a range of sources.

Our people
Our experienced management provides direction to teams that specialise in our core activities. Collaboration within an open and collegiate culture engenders creativity and innovation.

Relationships with stakeholders
We build dynamic and open relationships with potential and existing occupiers, local communities and investors (both shareholders and funders). This enables us to identify and respond to the needs of these key stakeholders.

WHAT SETS DERWENT LONDON APART

STRATEGIC FOCUS

On central London
We concentrate on the markets we know best and in which we can deliver our good value mid-market product. Our knowledge gives us a competitive advantage, helping us to find relative value and to identify up-and-coming areas. We have created a number of property clusters in the West End and the Tech Belt and substantial parts of our portfolio will benefit from the opening of Crossrail in 2018.

On good design
We believe that good architecture attracts tenants, and that it is important to be innovative, provide flexible space and continually improve quality. These distinctive attributes have helped develop the Derwent brand.

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

EFFECTIVE GOVERNANCE & CULTURE (page 77)
The Group's attitude to good governance reflects its culture which is shaped by the Board. Through good governance, the Group aims to earn stakeholders' trust and secure its 'licence to operate'.

Our business model explains how we deliver **above average long-term returns** and benefits to shareholders, occupiers and neighbourhoods.

OUTPUTS

Assets
Well-designed buildings in vibrant locations providing flexible space at mid-market rents that appeal to occupiers and improve the local environment.

Financial
Above average long-term financial returns for shareholders. A conservative financial base and a strong balance sheet, demonstrated by low gearing and strong interest cover.

Our people
A rewarding environment in which our people are valued and developed to fulfil their potential.

Relationships with stakeholders
Occupiers: benefit from our active management approach and high quality and sustainable space that meets their needs, helping them attract talent. Many occupiers have moved within the portfolio as their businesses have grown.

Local communities: benefit from the regenerative effects of redevelopment, investment and local projects that we initiate or support.

Investors: benefit from regular communication which provides an appreciation of how our business model is able to deliver in varying market conditions.

OUTCOMES

RISK MANAGEMENT (page 60)
At the centre of the Group's risk management process is its risk register.

Property cycle
For REITs, market conditions change as a result of a property cycle. We aim to increase our development risk and activity while reducing financial leverage into a rising property market. Ideally, our lowest leverage is near the peak and our maximum leverage near the floor.

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

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

Delivery of our strategy

Acquire properties and unlock their value

Page 28

Our strategic objectives	Priorities for 2016	Achievements in 2016
Buy at low capital values in improving London 'villages', capitalising on our detailed understanding of London Add to our pipeline of future opportunities and maintain this proportion of our portfolio at around 50%	Seek acquisitions that meet our strategic criteria Achieve planning on Monmouth House EC1 Complete The White Chapel Building E1 refurbishment Maintain balance between income generation and development activity	Planning secured for a potential 125,000 sq ft redevelopment of Monmouth House EC1 The White Chapel Building E1 refurbishment was completed and the basement acquired for £12m, creating the potential for Phase 2 of the refurbishment At the year end, 43% of the portfolio was potentially available for regeneration

Create well-designed space

Page 26

Our strategic objectives	Priorities for 2016	Achievements in 2016
Use top design teams to create attractive, adaptable and modern offices whilst avoiding over-specification Incorporate features in our developments to reduce the environmental impact and increase their appeal Invest in public realm to provide desirable spaces for occupiers and local communities	Complete White Collar Factory EC1 Continue construction at The Copyright Building W1 and 80 Charlotte Street W1 Commence Brunel Building W2	All priorities achieved with the exception of the completion of White Collar Factory EC1, which was delayed until Q1 2017

Optimise income

Pages 22 and 24

Our strategic objectives	Priorities for 2016	Achievements in 2016
Understand occupiers' needs by building strong relationships through regular dialogue Respond to occupiers' needs by varying terms of leases or by relocating them within the portfolio Ensure income growth by incorporating minimum rental uplifts in leases when appropriate	Let available space at White Collar Factory EC1, The White Chapel Building E1 and 20 Farringdon Road EC1 Continuously monitor portfolio for further asset management initiatives	At the year end, The Copyright Building W1 and White Collar Factory EC1 were 81% and 65% pre-let, respectively. 20 Farringdon Road EC1 and Phase 1 of The White Chapel Building E1 were 81% and 78% let, respectively New Lettings: £31.4m pa of income secured across 547,500 sq ft, on average 6.3% above December 2015 ERV Rent reviews: income increased by 42% to £18.3m pa on 395,500 sq ft Lease renewals and regears: income increased by 55% to £10.2m pa on 198,500 sq ft

Recycle capital

Page 28

Our strategic objectives	Priorities for 2016	Achievements in 2016
Regularly review the status and options for each property in the portfolio When market conditions are favourable dispose of assets where: · future growth is limited · they are non-core	Monitor portfolio for further opportunities to recycle capital	Three remaining residential units at Queens W2 and The Corner House W1 sold Investment property sales raised £208m, on average 3.7% above December 2015 book values

Maintain strong and flexible financing

Page 52

Our strategic objectives	Priorities for 2016	Achievements in 2016
Ensure sustainable interest cover Ensure appropriate level of gearing for market conditions and our development activity Provide protection from increases in interest rates Maintain good relationships with a broad spread of funding sources Extend loan durations when rates are attractive	Put in place additional long-term fixed rate debt Maintain good interest cover	£105m of long-term debt raised via US private placement notes Maturity on £525m of revolving facilities extended by one year During 2016, the Group's interest cover was 370%. At the year end, its LTV ratio was 17.7% and it had £383m of cash and undrawn facilities

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

KPIs and business metrics that measure our performance	Priorities for 2017	Principal risks to our strategic objectives
Page 30		Page 62
Total property return Capital return Gearing and available resources Reversionary percentage Development potential	Continue to seek acquisitions that meet our strategic criteria Maintain balance between income generation and development activity	Inconsistent strategy Inconsistent development programme Adverse Brexit settlement Increase in property yields Reduced development returns Cyber attack Regulatory non-compliance Shortage of key staff
Total property return Capital return Tenant receipts Tenant retention Development potential Void management BREEAM ratings Energy performance certificates	Complete White Collar Factory EC1 and The Copyright Building W1 Progress 80 Charlotte Street W1 and Brunel Building W2	Adverse Brexit settlement Reputational damage Reduced development returns Cyber attack Regulatory non-compliance Contractor/sub-contractor default Shortage of key staff
Total property return Capital return Interest cover ratio Void management Tenant receipts Tenant retention Reversionary percentage	Continuously monitor portfolio for further asset management initiatives De-risk 80 Charlotte Street W1 and Brunel Building W2 through pre-lets Extend income through renewals and regears at properties not earmarked for regeneration	Inconsistent strategy Inconsistent development programme Adverse Brexit settlement Reputational damage Reduced development returns Cyber attack Regulatory non-compliance Shortage of key staff
Interest cover ratio Development potential Gearing and available resources	Monitor portfolio for further opportunities to recycle capital	Inconsistent strategy Inconsistent development programme Adverse Brexit settlement Increase in property yields Cyber attack Shortage of key staff
Interest cover ratio Gearing and available resources Reversionary percentage	Refinance £28m secured facility maturing in 2018 Maintain or strengthen available facilities Maintain good interest cover	Inconsistent strategy Inconsistent development programme Adverse Brexit settlement Reputational damage Increase in property yields Reduced development returns Cyber attack Regulatory non-compliance Shortage of key staff

Optimise income

Lettings

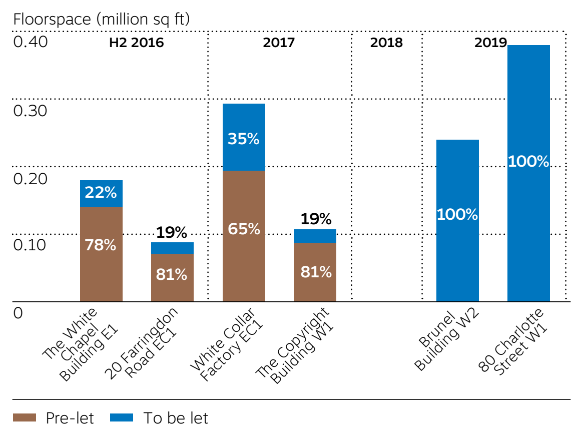
Our Leasing team **had its best year yet in 2016.** The fact that momentum continued throughout the year supports our view that we are offering **the right product on competitive terms.** The year began with strong demand, but with a vacancy rate of less than 2.0% our activities focused on the development and refurbishment programme for delivery before the end of 2017.

“It is important to me that the brilliant people that work at GDS get a brilliant place in which to work.”

Ben Gummer, minister for the Cabinet Office and Paymaster General referring to The White Chapel Building E1

The year began strongly, with a good first quarter dominated by the pre-letting of the office element of The Copyright Building, 30 Berners Street W1 to Capita. We were able to close the deal by agreeing to extend Capita’s lease with its existing landlord so that this is now co-terminous with the delivery of the new space. Such deals demonstrate the importance of some flexible thinking supported by balance sheet strength.

Letting progress at major schemes – 31 December 2016



Q2 was quieter ahead of the EU referendum but momentum was maintained with further lettings at White Collar Factory EC1. This continued throughout the year so that we raised pre-letting levels on the building from 29% to 65% by the year end. The development will complete in Q1 2017 and will be home to a strong roster of occupiers including Adobe, AKT II, BGL, Capital One, Runpath, Spark44 and The Office Group.

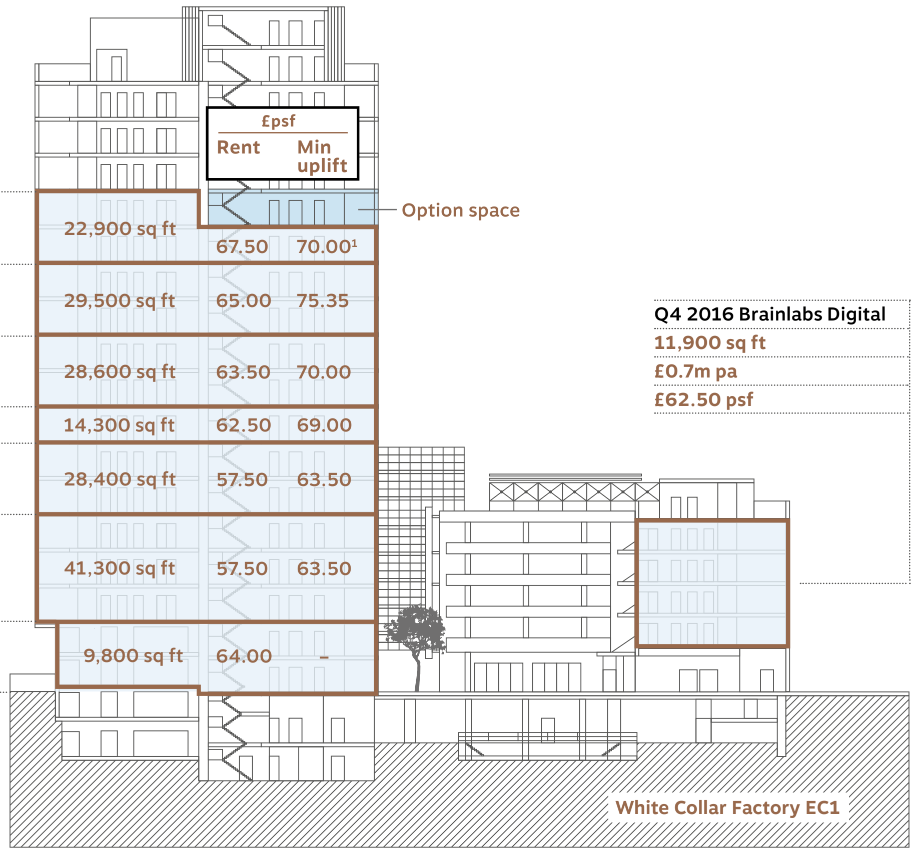
Activity picked up again in Q3 and we delivered all the deals that were under negotiation before the referendum vote. Our major achievement here was the letting of the majority of Phase 1 of The White Chapel Building E1. This refurbishment completed in October 2016 having started earlier in the year. The building is now 78% let to occupiers including GDS, Perkins+Will, Reddie & Grose, Shipowners’ Club and Unruly. Given we only acquired the building in December 2015, a very quick turnaround has been achieved.

Activity continued into Q4 so that by the end of the year we had secured £31.4m pa of rent through lettings, which beat our previous record by 16%. It also meant that, at the year end, only 202,150 sq ft, or 28%, of our major 2016-17 project deliveries was still available.

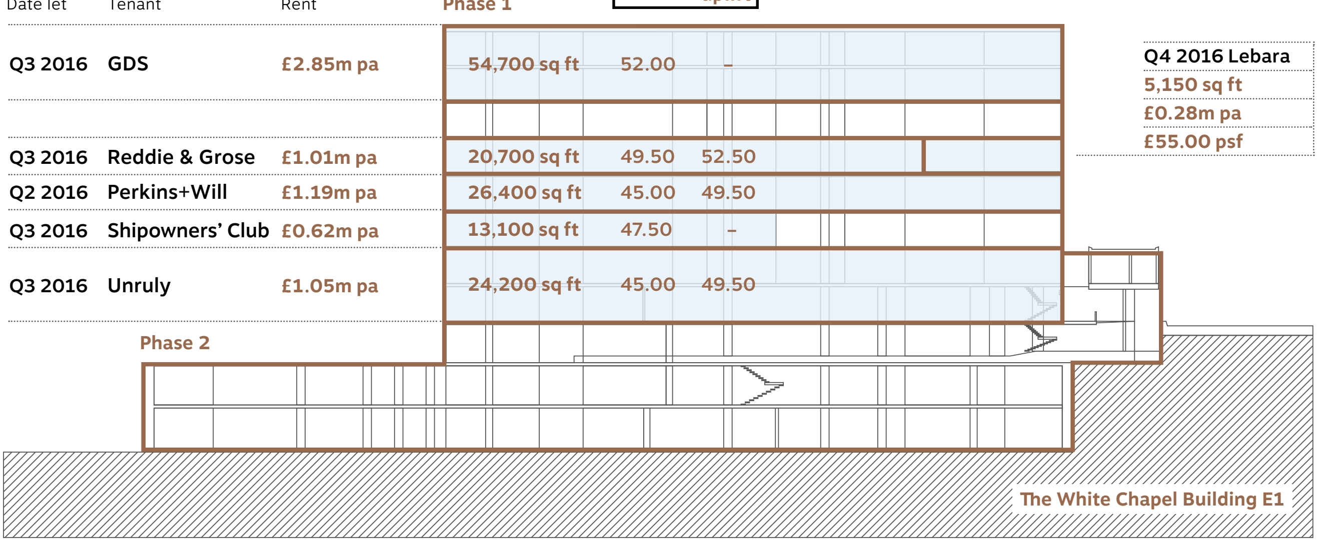
Lettings as at 31 December 2016

Date let	Tenant	Rent	Area	£psf Rent	£psf Min uplift
Q3 2016	Spark44	£1.55m pa	22,900 sq ft	67.50	70.00[1]
Q2 2016	Capital One	£1.92m pa	29,500 sq ft	65.00	75.35
Q1 2016	Adobe	£1.81m pa	28,600 sq ft	63.50	70.00
Q3 2015	BGL	£0.89m pa	14,300 sq ft	62.50	69.00
Q3 2015	AKT II	£1.64m pa	28,400 sq ft	57.50	63.50
Q2 2015	The Office Group	£2.38m pa	41,300 sq ft	57.50	63.50
Q3 2016	Runpath	£0.63m pa	9,800 sq ft	64.00	–

[1] No cap.



Date let	Tenant	Rent	Area	£psf Rent	£psf Min uplift
Phase 1					
Q3 2016	GDS	£2.85m pa	54,700 sq ft	52.00	–
Q3 2016	Reddie & Grose	£1.01m pa	20,700 sq ft	49.50	52.50
Q2 2016	Perkins+Will	£1.19m pa	26,400 sq ft	45.00	49.50
Q3 2016	Shipowners' Club	£0.62m pa	13,100 sq ft	47.50	–
Q3 2016	Unruly	£1.05m pa	24,200 sq ft	45.00	49.50



Optimise income | Create well-designed space

Asset management

Our asset and property managers constitute **Derwent London's largest team**, which reflects the fact that completed and let investment buildings represent the bulk of our assets.

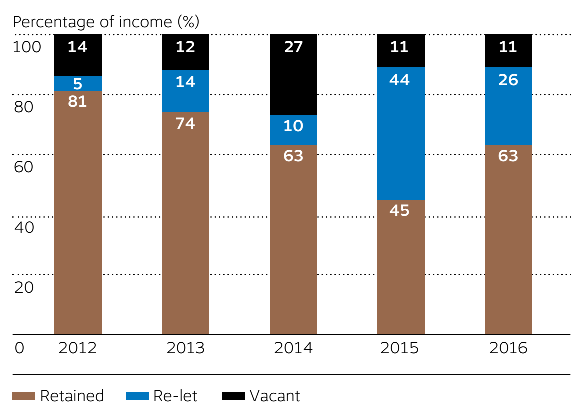
In these more uncertain times, the effectiveness of our teams can give us an edge in attracting new occupiers and retaining existing ones.

Our aim is to foster good and enduring relationships with all our occupiers, partly by providing an excellent level of service and a welcoming atmosphere, which also leaves a lasting positive impression on everyone who enters our buildings. Key aspects of our strategy are stunning entrances and continuous investment, not only in the physical space, but equally important, to ensure the high quality of personnel in building management, reception and security. This hands-on approach gives us excellent insight into our occupier base and ensures we can anticipate and respond to its needs.

Angel Building is an example of our approach to larger multi-let buildings with attentive on-site teams, an impressive reception, generous seating areas and an independent food offering, which has stood the test of time as well as enhancing the environment. We are duplicating this approach in our new multi-let schemes: The White Chapel Building and White Collar Factory. Whilst it may not be appropriate to replicate the full range of amenities in some of our smaller schemes, we still provide good quality entrances and services which our occupiers are able to enjoy.

We believe the overall effectiveness of our strategy and the Derwent experience is borne out by the fact many of our existing occupiers have previously occupied other Derwent London buildings, and we have good retention rates on lease expiries. Multi-let assets and shorter leases are therefore seen as an opportunity rather than a threat.

Retaining occupiers



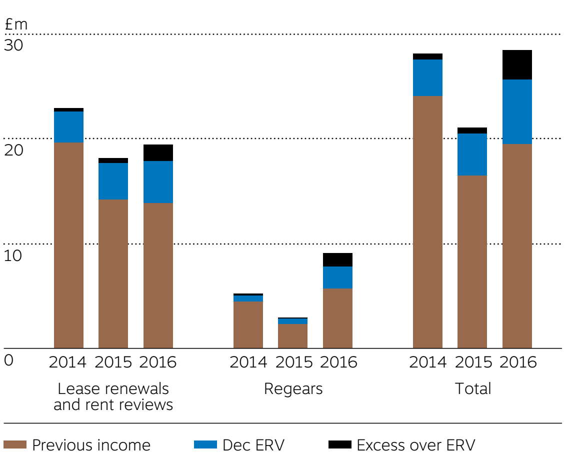
Another side to good customer service is attracting high quality occupiers and we discuss on a weekly basis any change or concerns regarding existing tenants. Bad debts across our portfolio have been kept to a minimum, even in the depths of previous recessions.

Approximately one fifth of our reversionary upside derives from re-setting passing rents to market either on review or on lease expiry. We have made good progress in the past year capturing £5.6m of additional rental income, a 41% uplift over the previous level. This is discussed in our Property review. However we still have £23.8m of potential uplifts to achieve in the next few years, with 82% falling due in 2017-18.

The Studio, Greencoat Place SW1

Greencoat House SW1

Asset management



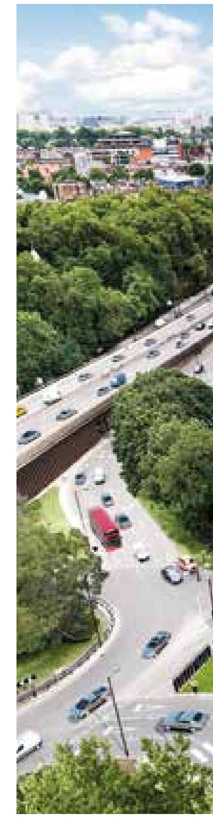
Another aspect of property management is identifying and managing small scale refurbishments or extensions. Such activities not only keep buildings fresh, but also boost the returns from our long-standing holdings. One recent example of this is at Greencoat and Gordon House SW1 which was originally acquired in 1995. In 2014 we bought in the long lease on the basement space and by the end of 2016 we had reconfigured 31,000 sq ft of previous storage and plant rooms into a basement gym, which was pre-let, and 13,000 sq ft of offices.

> "This innovative deal offers real benefits to both Derwent and Arup, and was possible because of the strong and trusting relationship developed between our firms over many years."

Arup Group on 80 Charlotte Street W1

Create well-designed space

Developments for delivery in 2019



Brunel Building, Paddington W2 and 80 Charlotte Street, Fitzrovia W1 will provide **good quality**, **well-priced** product in locations benefitting from **Crossrail**.

Investing in improving areas

Paddington is served by a major London rail terminus and underground station, but its rental performance has lagged behind many central London hotspots in this cycle. However, we think that its outlook will be much improved by the time we deliver this property in 2019. Crossrail will open in 2018 greatly improving the location's eastbound connectivity. For instance it will take four minutes to travel by train to Tottenham Court Road. In addition the area is seeing significant investment in the built environment and public realm both by ourselves and other parties.

Buying well, improving our interest

We acquired the leasehold of the original 78,000 sq ft building, which forms the site of Brunel Building W2, for £23.4m in 2001. We kept it occupied until December 2015, when it was cleared ahead of demolition. During our ownership we achieved planning for a new 240,000 sq ft office development as well as an adjoining residential and retail block. We also negotiated with the freeholder and the intermediate long leaseholder converting our position to a 999-year long leasehold with a 2.5% ground rent on the offices. The planning uplift represented an increase of 208% in our developable area.

Creating the right product

The building, designed by Fletcher Priest architects, will have column-free floors, two major terraces on the upper floors, and has 17,000 sq ft floorplates which are designed to be multi-let. It will open onto a new public canalside walkway and sits opposite one entrance to Paddington Crossrail station. Laing O'Rourke is the contractor on a fixed price contract. The ERV is £62.50 per sq ft, and we estimate our break-even rent is only c.£46 per sq ft.

Brunel Building, Paddington, is well placed by a Crossrail station, which is expected to significantly improve the area's eastbound connectivity in 2018.

Brunel Building W2

80 Charlotte Street W1

80 Charlotte Street, Fitzrovia, will be our **new flagship** in the heart of our **largest village,** which is also fast improving.

Investing in improving areas

Fitzrovia is one of London's most improving areas. There has been considerable investment in the past few years which has attracted major occupiers such as Capita, Estée Lauder and Facebook. We have already had considerable success at Charlotte Building, 1-2 Stephen Street and 90 Whitfield Street and expect the momentum to continue following the major changes to the eastern end of Oxford Street ahead of the opening of the new Tottenham Court Road Crossrail station in 2018. Significant investment in the public realm is planned, including improvements to Tottenham Court Road with the introduction of increased pedestrianisation and public spaces.

Buying well, improving our interest

80 Charlotte Street W1 is a major one and a half acre site. The majority of the buildings have been home to Saatchi & Saatchi for 40 years. In 2016 Saatchi completed its move to two new buildings that we had created at Turnmill EC1 and 40 Chancery Lane WC2. As a result we will now be able to complete the site demolition.

Creating the right product

A complete island site in central London is a rare opportunity and we also had the advantage of owning nearby properties. This allowed Derwent London to create a 380,000 sq ft scheme adding 62% to the net lettable area. The island site will comprise 302,000 sq ft of offices, which will have 40,000 sq ft floorplates capable of being multi-let. During 2016 we enhanced the planning to enable us to deliver 2.9m floor to ceiling heights across all the office space. The average ERV on the offices is £80 per sq ft, compared with a break-even rent of c.£58 per sq ft. We are also introducing 14,000 sq ft retail, 14,000 sq ft of private residential and a 'pocket park'. At the adjoining Asta House we are developing 31,000 sq ft of residential space, of which 32% is affordable, plus 12,000 sq ft of offices. Since the year end, Arup has agreed to pre-let 133,600 sq ft for an annual rent of £9.7m.

Acquire properties and unlock their value | Recycle capital

Acquisitions and disposals

We believe that an **active management** approach enables us to review and adjust the portfolio's balance between worked properties and opportunities. In this way, we maintain **our longer term growth profile**. It also means that we remain close to the investment market and have frequent evidence to support our portfolio's valuation.

Grafton Hotel W1 – sold in 2016

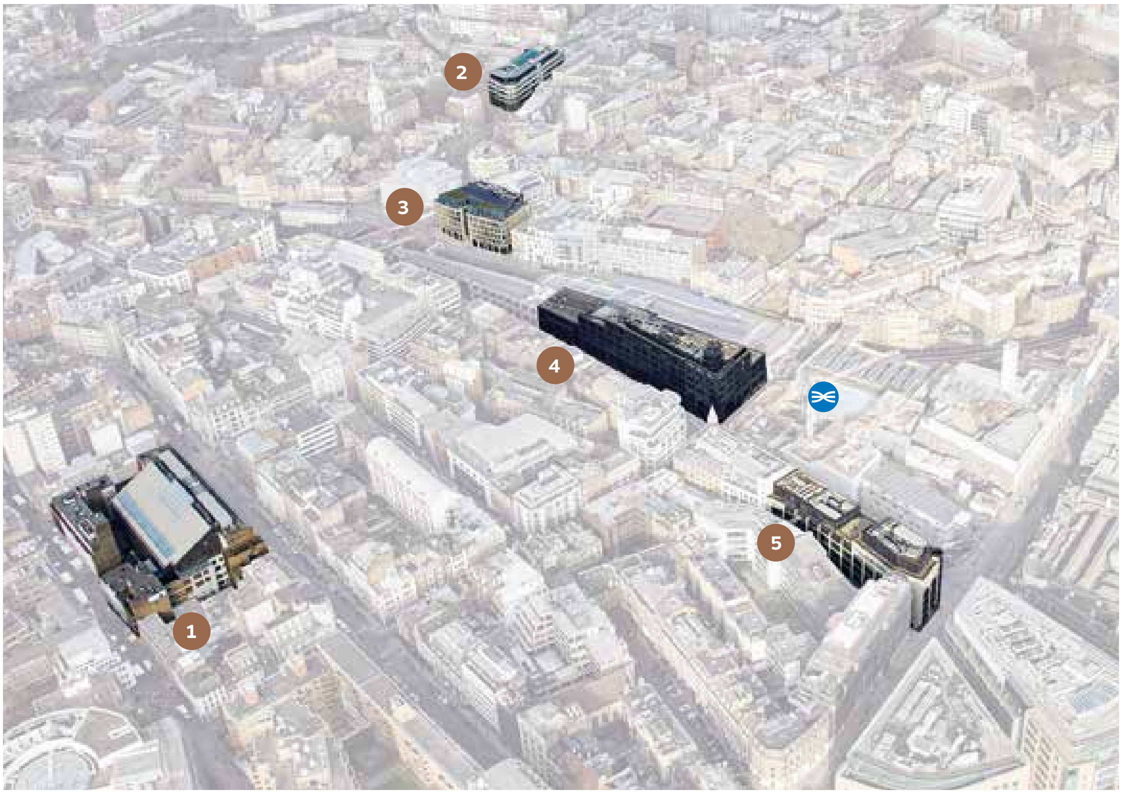
Our basic strategy is to acquire opportunities let on low rents and with low capital values, located in improving areas. These properties will also have refurbishment or redevelopment potential which is not included in the purchase consideration. Generally we aim for each acquisition to be income producing while we are formulating our regeneration plan. Many of our recent acquisitions have been near existing properties thereby creating 'clusters', such as our investments in Clerkenwell close to Farringdon station illustrated here. When we judge that the time is right, we sell assets with lower return characteristics, higher capital values per sq ft or limited value-add opportunities. In addition we have been selling smaller non-core assets where activity would have a limited impact on the Group as a whole.

In 2016 we limited our acquisitions to the long leasehold interest to a lower ground floor at The White Chapel Building E1. We were much more active in terms of disposals with £208m of investment sales, virtually all of which took place after the EU referendum vote. These disposals provided market support for our carrying valuations at a time of greater market uncertainty. The four principal disposals were three office buildings in the West End and an Islington site where we had received residential planning earlier in the year.

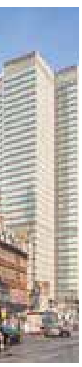
Our acquisitions and disposals in the past six years demonstrate the success of our strategy. During that period we spent £678.1m on acquiring properties predominately in the Tech Belt or Fitzrovia, adding c.1.5m sq ft to our portfolio at an average of £515 psf. Three quarters have subsequently been refurbished or redeveloped, with the remainder either sold, having achieved planning consent, or under appraisal. Over the same period we raised £1,058.5m through the sale of c.1.4m sq ft of properties which had limited future opportunities, achieving an average capital value of £800 psf.

In the past six years we have invested £672.7m of capital expenditure in refurbishing and developing properties. Of this, £380.4m, or 57%, was financed by the net property disposals referred to above, resulting in a net investment of £292.3m.

Farringdon station cluster EC1

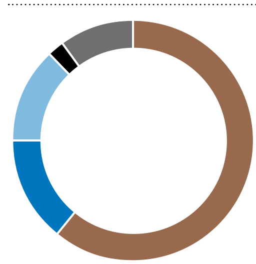


1. Johnson Building
2. The Buckley Building
3. Turnmill
4. 20 Farringdon Road
5. 19 Charterhouse Street



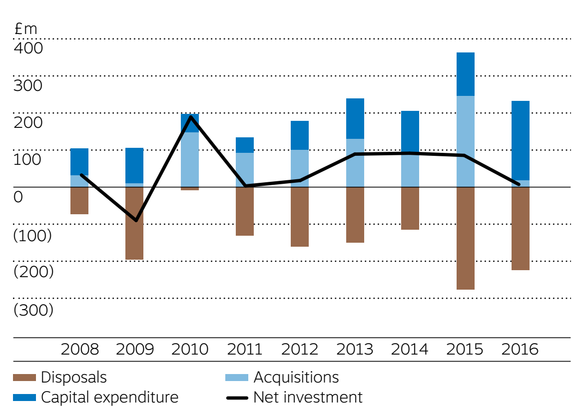
The White Chapel Building E1

Subsequent activity on acquisitions



	%
Refurbished	61
Developed	14
Sold	13
Won consent	2
Under appraisal	10

Net investment activity



Measuring our performance

Our objective is to provide **above average long-term returns** and benefits to shareholders, occupiers and neighbourhoods through the execution of our **strategy**. In order to assess the effectiveness of the different strands of this strategy, **we measure our performance** against a number of different benchmarks.

Key performance indicators

- Total return
- Total property return (TPR)
- Void management
- Tenant receipts
- Interest cover ratio
- BREEAM ratings

Key metrics

- Development potential
- Reversionary percentage
- Tenant retention
- Gearing and available resources
- Energy Performance Certificates (EPC)
- Capital return
- Total shareholder return (TSR)

Above average long-term returns to shareholders

EPRA BPR

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

We have established a set of Key Performance Indicators (KPIs) which are measured against relevant external and internal benchmarks. In addition to these KPIs, we also use key metrics and the EPRA Best Practice Recommendations (BPR) to monitor the performance of the business. For definitions please see pages 173 and 174.

Link to remuneration

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

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

Bonus scheme

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

Long-term incentive plan

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

Key performance indicators

Total return

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

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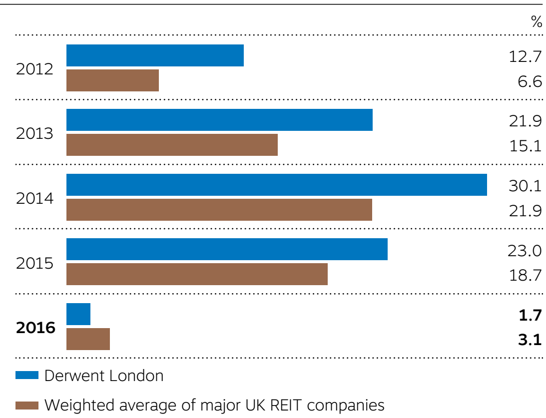
Our performance

Although our total return of 1.7% in 2016 meant we underperformed against our peer group, our cumulative performance over the past five years was 124% compared to the benchmark of 83%.



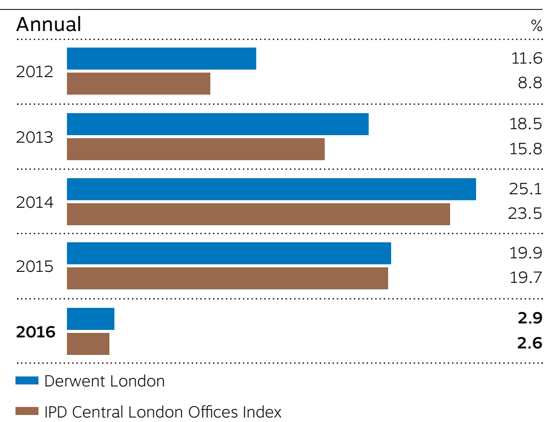
Total property return (TPR)

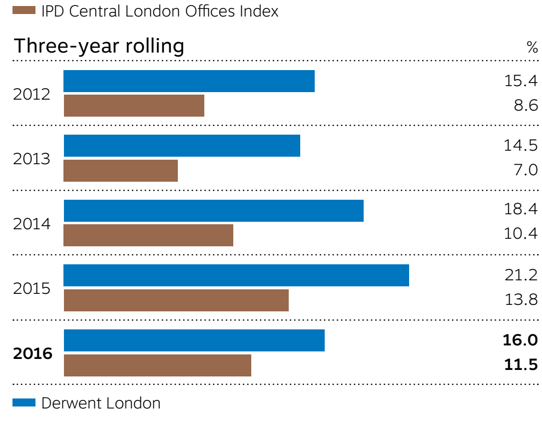
Our total property return gives an indication of the effectiveness of all the property related strands of our strategy. We aim to exceed the IPD Central London Offices Index on an annual basis and the IPD UK All Property Index on a three-year rolling basis.

Page 40

Our performance

In a year of lower property returns due partly to greater economic uncertainty, our active approach to asset management and development meant that we exceeded our IPD benchmarks again in 2016. Over the past five years we have exceeded the IPD Central London Offices Index and the IPD UK All Property Index by 13% and 47%, respectively.





Strategic objective measured

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

Measuring our performance

continued

Key performance indicators continued

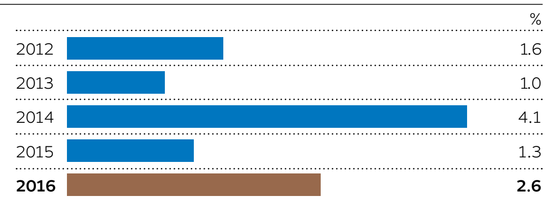
Void management

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

Page 43

Our performance

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



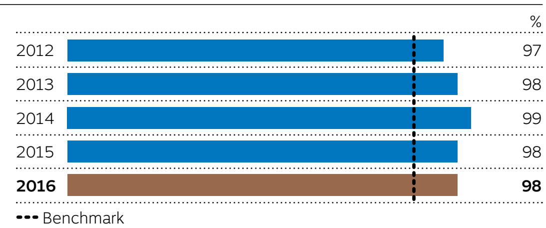
Tenant receipts

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

Page 43

Our performance

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



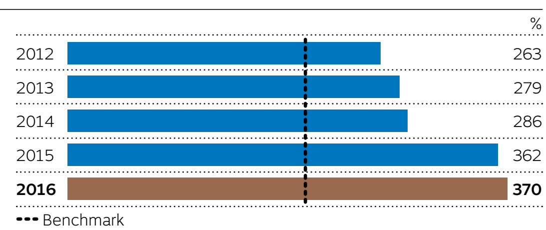
Interest cover ratio

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

Page 52

Our performance

The net interest cover ratio comfortably exceeded our benchmark of 200% in each of the past five years.



BREEAM ratings

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

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Our performance

No BREEAM certificates were received in 2016. Based on interim scores, we are expecting our two major developments due for completion in 2017 to meet our benchmark.

	Expected completion	Rating
White Collar Factory EC1 (Building 1)	Q1 2017	Outstanding[1]
The Copyright Building W1	Q4 2017	Excellent[1]

[1] Interim score based on design stage.

Key metrics

Development potential

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

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Our performance
The percentage of our portfolio which is available for redevelopment, regeneration or refurbishment was 43% at the end of 2016.

%	2012	2013	2014	2015	**2016**
	53	55	52	47	**43**

Reversionary percentage

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

Page 40

Our performance
Having increased contracted rent by £13.2m during 2016, the 89% reversion demonstrates that there still remains significant growth potential in our income stream.

%	2012	2013	2014	2015	**2016**
	46	56	64	103	**89**

Tenant retention

Maximising tenant retention following tenant lease breaks or expiries when we do not have redevelopment plans minimises void periods and contributes towards rental income.

Page 43

Our performance
Our retention and re-let rate was 89% in 2016 and averaged 85% over the past five years, evidence of the strong relationships we have with our tenants and the appeal of our mid-market product.

	2012	2013	2014	2015	**2016**
Exposure (£m pa)	14.7	20.0	17.3	17.0	**11.0**
Retention (%)	81	74	63	45	**63**
Re-let(%)	5	14	10	44	**26**
Total (%)	86	88	73	89	**89**

Strategic objective measured

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

Measuring our performance

continued

Key metrics continued

Gearing and available resources

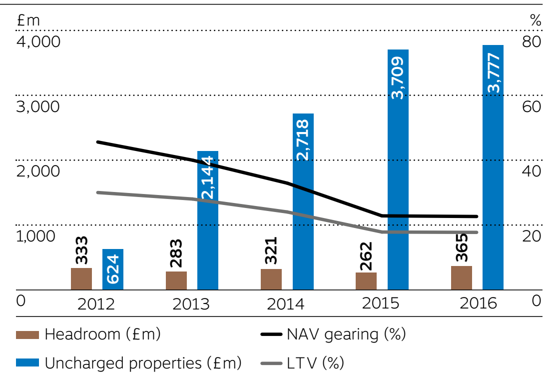
Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the LTV ratio. Our approach to financing has remained robust and our gearing levels reflect our ability to finance our pipeline, cope with fluctuations in the market and react quickly to any potential acquisition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

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

Page 52

Our performance

Our gearing levels improved slightly in 2016 and the level of uncharged properties remained above £3.7bn (76% of the portfolio). Headroom increased due to property sales and £105m of long-term debt arranged in 2016.



Energy Performance Certificates (EPC)

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

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Our performance

During 2016 we received certificates for three of our major refurbishments, all of which met or exceeded our benchmark.

	Completion	Rating
Angel Square EC1	Q1 2016	C
20 Farringdon Road EC1	Q3 2016	B
The White Chapel Building E1	Q4 2016	B

Capital return

We compare our valuation performance with the IPD Central London Offices Index for capital growth.

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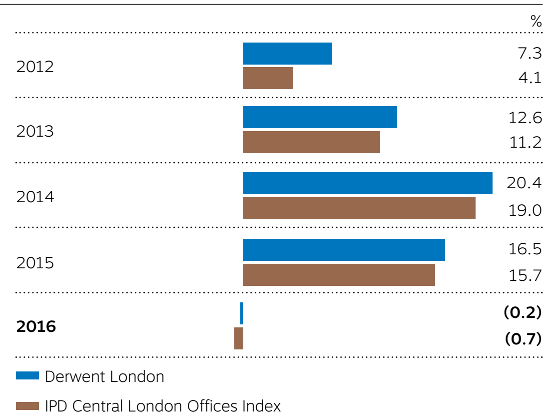
Our performance

While central London office values declined in 2016 principally due to an outward movement in yields, our letting activity and the appeal of our mid-market product meant that we exceeded our IPD benchmark by 0.5% and have done so over the past five years by a total of 10.9%.



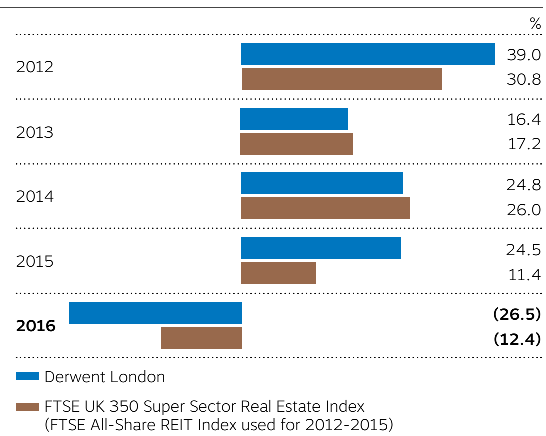
Total shareholder return (TSR)

To measure the Group's achievement of providing above average long-term returns to its shareholders, we compare our performance with the FTSE UK 350 Super Sector Real Estate Index, using a 30-day average of the returns in accordance with industry best practice.

Page 102

Our performance

The fall in the share price during the year has meant that the Group underperformed its benchmark index in 2016. However, our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London 15 years or 10 years ago would, at the end of 2016, have been worth £496 or £156 compared with £245 or £77, respectively, for the benchmark index.



Strategic objective measured

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

Chief Executive's statement

We are in a **strong financial position** with a **portfolio rich with opportunities** which gives us considerable scope to create **further growth** in our business.

John Burns
Chief Executive

The Group's operating performance in 2016 illustrates how our business model of creating well-designed mid-market flexible office space in improving locations can make meaningful progress even in less buoyant market conditions.

Derwent London has taken advantage of the recent levels of occupational demand to achieve a record level of lettings in 2016, although the pace of market activity has slowed with the increased uncertainty surrounding Brexit negotiations. We start 2017 with a low EPRA vacancy rate in a central London portfolio let at an undemanding average topped-up office rent of £45 per sq ft. This is comfortably at the lower end of our middle-market target range of £45 to £80 per sq ft, and very much at the affordable end of the spectrum. Our average lease length is 6.5 years or 7.8 years allowing for pre-lets.

Even after allowing for the changing outlook in the last eight months, our contractual cash rent of £150.3m, the basis of the portfolio's net initial yield, can grow by £75.8m from the expiry of rent free periods, minimum uplifts, pre-lets, or from reversions within the investment portfolio. Since then we have moved towards this by regearing the leases on 231,400 sq ft of the office space at Angel Building EC1 so that Expedia can occupy the majority of the building from 2020. This enabled us to capture the significant existing reversion, and there are now minimum uplifts at the next reviews in 2020 and 2021. In addition the income has been extended by between 9 and 14 years to 2030. CBRE estimate that this initiative has enhanced the building's value by 10%.

Letting our developments under construction and vacant space could add another £58.4m to rental income, after allowing for £363m of future capital expenditure to complete. Since the year end we have pre-let £10.7m, or 18% of this additional potential, principally from our first letting at 80 Charlotte Street W1 to Arup, and also another floor at White Collar Factory EC1 to Adobe. As a result our full development programme, which will not complete until 2019, is now 44% pre-let by income compared to 8% in December 2015.

In total, the reversionary gains in our existing portfolio could raise our contractual cash rental income by more than 85% in the next five years. In the coming 12 months, we aim to continue capturing our investment reversion, let the available space in our 2017 project completions and achieve more pre-lets on the 2019 deliveries. This strategy gives us the opportunity to tie in substantial income growth again this year while de-risking the development programme.

The Group continues to look for opportunities to replenish our future pipeline. However a lack of suitable opportunities meant that our only acquisition in 2016 was the long leasehold interest on part of The White Chapel Building. Conversely we were able to identify a number of opportunistic disposals which enabled us to sell £208m of property in 2016 where we felt that we had limited short-term value to add. These disposals have reinforced our balance sheet strength and our LTV ratio has fallen again to 17.7%. Since the year end we have agreed to sell an additional £327m of property above book value, which will further improve our financial position.

We, and our occupiers, face a number of challenges this year with heightened political and economic uncertainty and the impact of business rate increases in London from April 2017. It is still far too early to know what longer term impact these may have on the London market. So far the UK and London economies have been resilient and business confidence indicators have recovered from June 2016 levels. Our portfolio is well-balanced and opportunity rich. We have a skilled management team and financial flexibility. These attributes give us considerable scope to create further growth in our business over the next few years.

John Burns
Chief Executive
28 February 2017

Our potential reversion and pre-letting opportunities could see us tie in substantial income growth again in 2017.

Our market

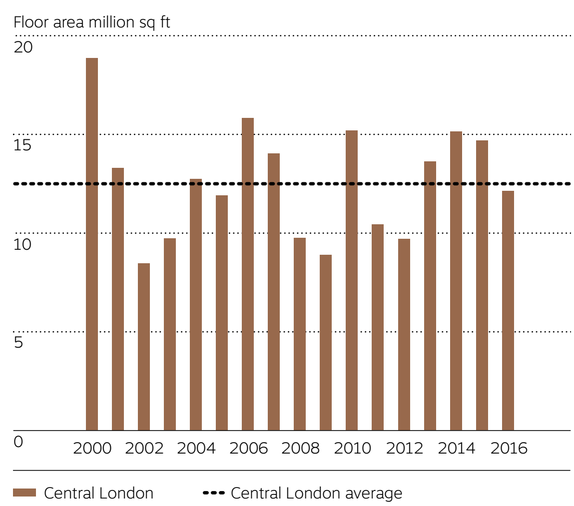
Despite the talk of an exodus of London bankers, important global businesses continued to make major commitments to London, notably **Amazon, Apple, Expedia, Facebook, Google** and **Wells Fargo**. Investment demand remains robust.

Although overall office take-up in 2016 failed to match the high levels of recent years, the outcome proved to be much better than had been expected in the middle of the year. In total take-up of 12.2m sq ft was 17% below the previous year, but still close to the long-term trend. Despite the talk of an exodus of London bankers, important global businesses continued to make major commitments to London, notably Amazon, Apple, Expedia, Facebook, Google and Wells Fargo among others. Three sectors continue to dominate take-up: business and professional services represented 28.6%, TMT's share has risen to 24.6% and banking and finance fell to 20.3%. However central London vacancy rates have risen from 2.3% to 4.3%. In the West End the vacancy rose a little less from 1.9% to 3.5%.

One year ago CBRE estimated that 7.1m sq ft of office space would be developed in 2016. In the event only 61% was delivered. This year it is estimated that 7.2m sq ft will be built, which, if completed, means that over the two years new supply is 2m sq ft lower than was expected at the beginning of last year. In total there is currently 12.5m sq ft under construction, which is 53% pre-let. Therefore the vacant element totals 5.9m sq ft or 2.6% of the total market. The West End's share is 1.9m sq ft under construction which is 41% pre-let, leaving 1.1m sq ft available or 1.2% of the local market.

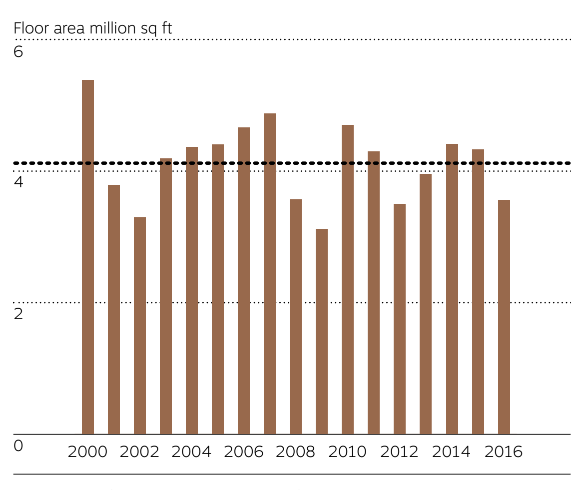
Overall office rental growth slowed significantly in 2016 with CBRE reporting prime rents up just 1.3%, and West End rents falling marginally by 0.8%. This is the first fall since Q1 2010, and was driven by weakness in the Mayfair/St James's market, which fell 6.3%. Other West End markets were static or showed modest growth. One exception was Paddington where rents rose 8.0%.

Central London office take-up



Source: CBRE

West End office take-up

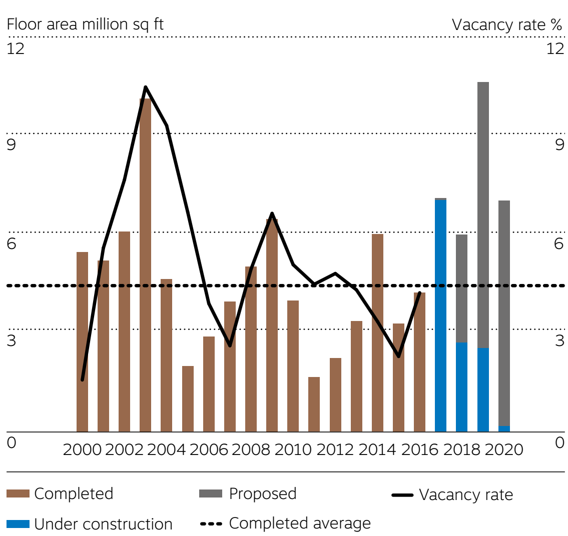


Source: CBRE

The investment market saw strong Q1 and Q4 activity, but was relatively quiet in between which meant that activity levels at £13.1bn were 19% down on 2015. The immediate impact of the EU referendum vote was for yields to move out c.25bp to reflect heightened uncertainty and some early forced sales by the open-ended funds which created an initial sharp adjustment. However the market quickly stabilised: tenants have been resilient and the weaker level of sterling has attracted fresh investment interest as demonstrated by the £4.1bn of deals in Q4. West End annual activity at £4.4bn held up better and was only 8% lower than in 2015, seeing a much higher degree of domestic interest, which accounted for 46% of the transactions as opposed to 30% for the market as a whole. There have already been a number of significant transactions in Q1 2017 which suggests that demand remains robust.

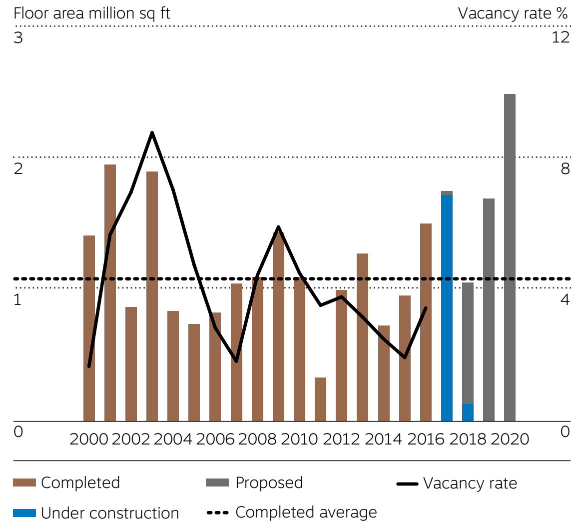
Against the current background, projections on the future must be treated with caution. The London office occupier is likely to face additional costs following the rise in business rates introduced from April 2017, and it is widely expected that some financial and associated jobs will move to other cities in the EU. The latter will ultimately depend on the outcome of UK-EU negotiations, but a number of banks have already suggested that several thousand jobs are earmarked to move. Despite these challenges we believe that there is still scope for selective rental growth, although this is unlikely to occur across all our London villages. On average we expect ERV movements across our portfolio of between 0% and -5% in 2017. We have seen our property yields move out 31bp since December 2015, and these may drift out a little further in the current year.

Central London office development pipeline



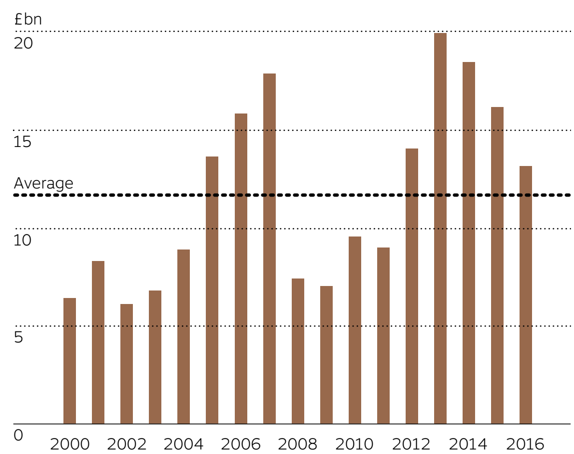
Source: CBRE

West End office development pipeline



Source: CBRE

Central London office investment transactions



Source: CBRE

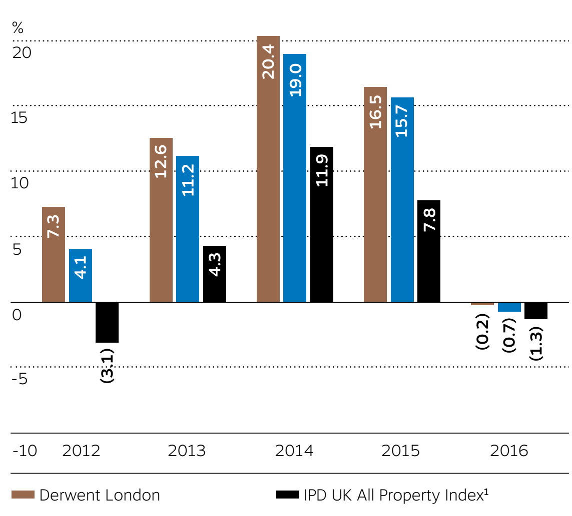
Valuation

The valuation themes were positives from **rental growth** and our **on-site developments**, but these were offset by an outward movement in yields and the impact of a rise in Stamp Duty Land Tax.

Nigel George
Executive Director

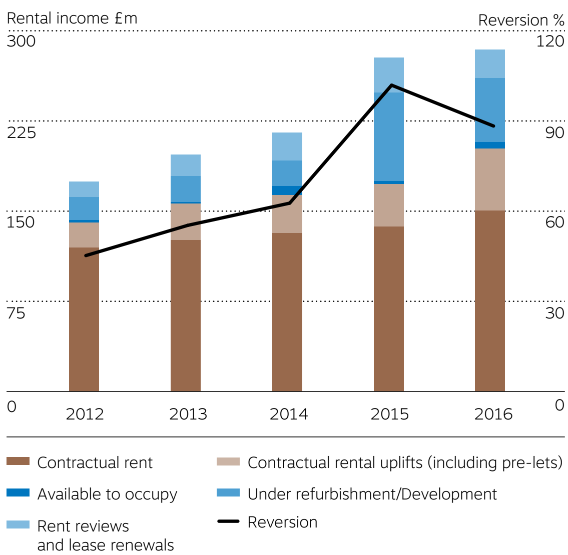
The Group's investment portfolio was valued at £5.0bn at 31 December 2016, a similar level to last year. The valuation themes were positives from rental growth and our on-site developments, but these were offset by an outward movement in valuation yields. In addition we benefitted from an uplift on 132-142 Hampstead Road NW1 where we had conditionally agreed to sell the property. As a result the valuation would have been flat apart from the additional impact of a rise in Stamp Duty Land Tax in March 2016 that lowered values by around 1%. The net outcome was a valuation deficit for the year of £20.9m, before accounting adjustments of £23.3m (see note 16) giving a total reported deficit of £44.2m. This equated to a marginal underlying valuation decrease of 0.2% which followed a 16.5% increase in 2015. The result was an outperformance when measured against our capital value benchmarks, the IPD Quarterly Index for Central London Offices, which decreased by 0.7%, and the wider IPD UK All Property Index which fell by 1.3%.

Valuation performance

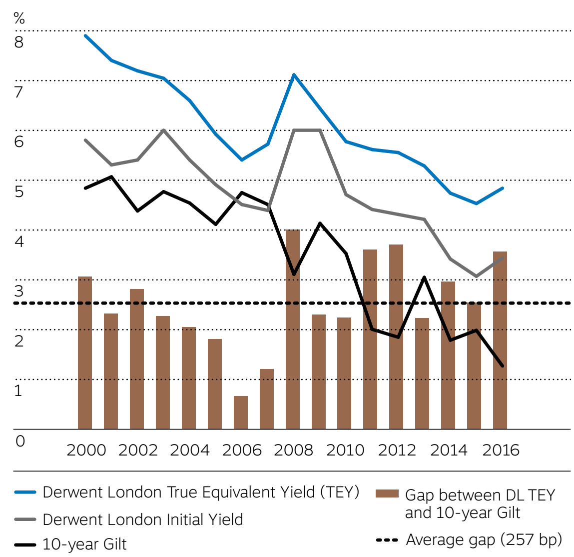


[1] Quarterly Index.

Portfolio income potential



Valuation yields



By location, our central London properties, which represent 98% of the portfolio, saw an underlying valuation decline of 0.1%, with the West End down 0.7% and the City Borders up by 1.0%. The latter area benefitted from letting progress at the White Collar Factory EC1 and The White Chapel Building E1. The 2% balance of the portfolio is our non-core Scottish holdings and these were down 1.9%.

The portfolio's total property return was 2.9% for 2016 compared to 19.9% in 2015. The IPD Index for total return was 2.6% for Central London Offices and 3.5% for All UK Property. Although we outperformed our more comparable benchmark we underperformed the broader index as a consequence of the higher property yields outside London.

Within the investment portfolio, we were on site at four major developments during the year. Two of these, White Collar Factory EC1 and The Copyright Building W1, will be completed in 2017 and two more, 80 Charlotte Street W1 and Brunel Building W2, are in the early stages of development. In total, these projects were valued at £662m delivering a 4.7% valuation uplift. This outperformance came from strong letting activity above ERVs and the valuers releasing development surpluses as projects neared completion. Accordingly, our two near-term completions were up 14.1%. The two recently commenced developments were marked down 5.9% as our valuers increased the development margin targets for a more uncertain market.

The valuer's estimate of the net rental value of these four developments was £65.4m and at year end £18.3m or 28% of this had been secured through our pre-lets. Since then we have signed two further lettings at £10.7m pa, thereby taking our developments to 44% de-risked. The average lease length on our pre-letting activity is 15.4 years. Capital expenditure required to complete these four developments is £347m. While prime West End office rents declined marginally during the year, our mid-market rental locations, such as Fitzrovia, Victoria and the Tech Belt, continued to grow, albeit more slowly than in recent years. Our rental values, on an EPRA basis, rose by 5.1% and followed 11.8% in 2015. During 2016 the West End saw rental growth of 5.5% and the City Borders 4.4%.

On an EPRA basis the portfolio's initial yield was 3.4% which will rise to a 'topped-up' 4.1% following expiry of rent free and half rent periods and contractual rental uplifts. For the previous year, these figures were 3.1% and 3.8%, respectively. The true equivalent yield at year end was 4.83%, a 31bp outward movement over the year and follows 21bp of yield tightening in 2015. This movement was the first outward yield shift since 2009 and was mainly in the second half of the year, when the equivalent yield moved out 25bp. While the economy remained resilient during the year, especially in the second half, the outlook post the referendum remains uncertain and as a consequence buyers are seeking higher yields to reflect the greater potential risks to the rental outlook.

As noted in our 2015 Annual Report we expected a greater proportion of our future return to come from income, developments and asset management. This proved to be the case. As set out in the Portfolio Management section, our asset management initiatives also had some notable success. The outcome was a strong uplift in our annualised contracted rent. Our contracted rent rose 9.6%, from £137.1m to £150.3m, despite disposals lowering income by £6.7m and no income-producing acquisitions. The portfolio's ERV was also up, to £284.5m. Thus, the rental reversion at year end was £134.2m. Of this potential growth £52.0m is contractual from fixed uplifts, the expiry of rent free periods or pre-lets. Adding this to the current income takes our 'topped-up' rent to £202.3m which is 17.2% higher than last year.

The majority of the balance of the reversion comes from letting vacant space, either currently available to occupy or under construction. This totalled £58.4m. The main elements of this are the ERVs of our two recent development starts: 80 Charlotte Street and Brunel Building, which total £41.2m. These properties will not be delivered until 2019.

The final component comes from lease reviews and renewals. We made excellent progress in capturing some of this in 2016, but there is still a further £23.8m of potential income to come.

Valuation

continued

Portfolio statistics – valuation

		Valuation £m	Weighting %	Valuation[1] performance %	Occupied floor area[2] '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central		2,716.0	54	(0.6)	2,315	33	52	640	3,040
Borders		440.1	9	(1.5)	516	–	–	–	516
		3,156.1	63	(0.7)	2,831	33	52	640	3,556
City									
Borders		1,724.1	35	1.0	1,795	76	109	102	2,082
Central London		4,880.2	98	(0.1)	4,626	109	161	742	5,638
Provincial		100.3	2	(1.9)	337	4	2	–	343
Total portfolio	**2016**	**4,980.5**	**100**	**(0.2)**	**4,963**	**113**	**163**	**742**	**5,981**
	2015	4,988.5	100	16.5	4,745	69	421	934	6,169

1 Properties held throughout the year.
2 Includes pre-lets of current major projects.

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		150.3
Contractual rental increases across the portfolio	33.7	
Contractual rental from pre-lets on major projects	18.3	
Letting 113,000 sq ft available floor area	5.3	
Completion and letting 163,000 sq ft of minor refurbishments	6.0	
Completion and letting 742,000 sq ft of major projects	47.1	
Anticipated rent review and lease renewal reversions	23.8	
Portfolio reversion		134.2
Potential portfolio rental value		284.5

Portfolio statistics – rental income

		Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End							
Central		80.6	35.20	47.7	31.1	159.4	6.9
Borders		19.8	38.43	–	5.1	24.9	6.3
		100.4	35.79	47.7	36.2	184.3	6.7
City							
Borders		44.7	25.62	10.6	39.4	94.7	6.2
Central London		145.1	31.84	58.3	75.6	279.0	6.6
Provincial		5.2	15.44	0.1	0.2	5.5	3.7
Total portfolio	**2016**	**150.3**	**30.73**	**58.4**	**75.8**	**284.5**	**6.5**[2]
	2015	137.1	29.28	76.4	64.6	278.1	7.0

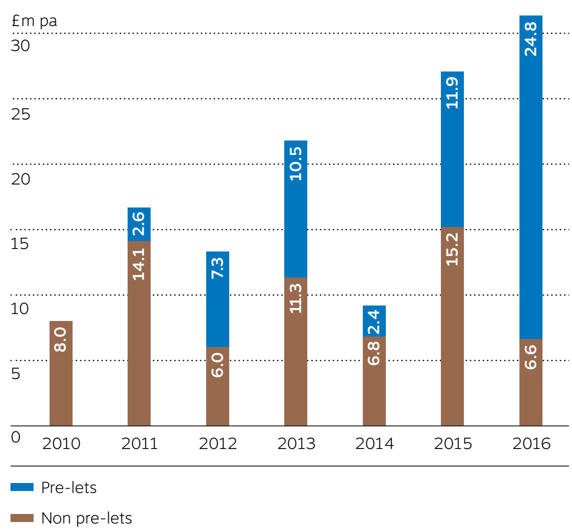
1 Lease length weighted by rental income at year end and assuming tenants break at first opportunity.
2 7.8 years including pre-lets.

Portfolio management

2016 was a new **annual letting record**, with activity evenly spread between the first and second halves of the year.

Paul Williams
Executive Director

Letting activity by rental income



In 2016 the Group achieved a new annual letting record of £31.4m, surpassing the previous 2015 record by 16%. Activity was evenly spread between the first and second halves and, on average, exceeded the December 2015 ERV by 6.3%, as can be seen in the table below. This reflected the amount of space we had available, predominantly either being developed or refurbished, the suitability of our product and the success of our letting campaigns. As a result we start the year again with a low existing vacancy rate, but with considerable latent letting opportunity in our development pipeline.

Letting activity 2016

			Performance against Dec 15 ERV	
	Area sq ft	Income £m pa	Open market	Overall[1]
H1	267,700	16.7	6.5%	6.3%
H2	279,800	14.7	9.0%	6.3%
2016	**547,500**	**31.4**	**7.7%**	**6.3%**

[1] Includes short-term lettings at properties earmarked for redevelopment.

Portfolio management

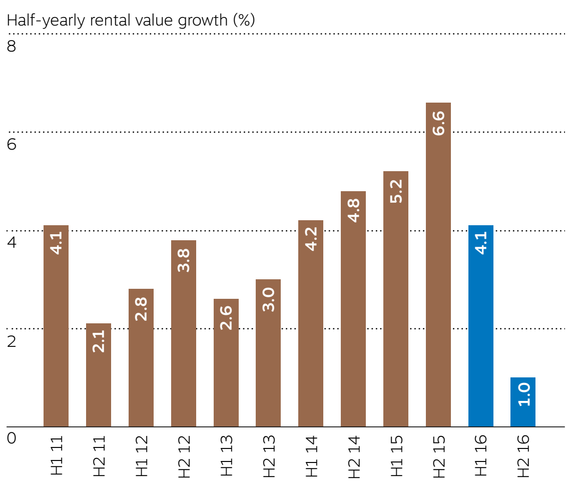
continued

Principal lettings in 2016

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min/fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
The Copyright Building W1	Capita	87,150	86.00[1]	7.4	–	20	–	34
White Collar Factory EC1	Adobe	28,600	63.50	1.8	70.00	11.5	–	18
Angel Square EC1	Expedia	9,850	53.50	0.5	57.50	5.3	2	2
Middlesex House W1	GHA Services	4,360	70.00	0.3	72.50	10	5	6
Q2								
White Collar Factory EC1	Capital One	29,500	65.00	1.9	75.35	11	–	17
The White Chapel Building E1	Perkins & Will	26,400	45.00	1.2	49.50	10	5	8, plus 7 if no break
20 Farringdon Road EC1	The UK Trade Desk	9,400	62.50	0.6	65.65	10	5	5
20 Farringdon Road EC1	Okta	10,000	62.50	0.6	–	10	5	6
Q3								
The White Chapel Building E1	GDS	54,700	52.00	2.8	–	10	5	8, plus 10 if no break
White Collar Factory EC1	Spark44	22,900	67.50	1.5	70.00	15	5 & 11	9, plus 6 plus 6 if no break
The White Chapel Building E1	Unruly	24,200	45.00	1.1	49.50	10	5	9, plus 9 if no break
The White Chapel Building E1	Reddie & Grose	20,700	49.50	1.0	52.50	10	–	18
Johnson Building EC1	Audio Network	10,800	63.50	0.7	–	10	5	9, plus 8 if no break
The White Chapel Building E1	Shipowners' Club	13,100	47.50	0.6	–	10	–	19
78 Whitfield Street W1	Global Eagle Entertainment	9,500	65.00	0.6	–	10	5	6
White Collar Factory EC1	Runpath	9,800	64.00	0.6	–	10	5	9, plus 6 if no break
Q4								
20 Farringdon Road EC1	Indeed	18,200	56.50	1.0	–	5	3	5
1-2 Stephen Street W1	Iron Web	11,100	75.00	0.8	–	10	5	9, plus 9 if no break
White Collar Factory EC1	Brainlabs Digital	11,900	62.50	0.7	–	11	–	17
50 Oxford Street W1	The Fragrance Shop	1,000	–	0.4	–	10	–	9

1 Excludes reception area.

Rental value growth



Last year started well with the pre-let of the whole office element of The Copyright Building W1 on a 20-year lease at an average rent of £86 per sq ft. We continued to let floors of the White Collar Factory EC1 throughout the year, achieving a new record rent of £67.50 per sq ft on the tower. We launched The White Chapel Building leasing campaign in Q2 and the property is now 78% let. The refurbishment at 20 Farringdon Road EC1 is also largely let. On our investment properties we achieved a new rental high at the Johnson Building EC1, and let the last available floor at 1-2 Stephen Street W1.

Active asset management is one way we capture growth. During 2016 we concluded lease renewals and reviews on 419,400 sq ft achieving rents of £19.5m, 40.5% above previous levels and 8.9% above December 2015 ERV. In addition, we regeared leases on 174,600 sq ft adding a further £9.1m of income 59.9% above the previous income and 16.3% above ERV. In total this covered 594,000 sq ft or 12% of our completed portfolio.

Among these transactions we secured significant uplifts on rent reviews at 20 Farringdon Road EC1, Angel Building EC1 and 1-2 Stephen Street W1 where we achieved rents of c.£50, £60 and £70 per sq ft, respectively. We also completed notable lease regears at 60 Whitfield Street W1 and 1 Oliver's Yard EC1. At the former, we provided a capital payment in return for improvements, our current income will increase from £1.6m to £2.2m in 2018, and the lease on 36,200 sq ft has been extended from 2018 to 2029. At the latter we have increased the income on 50,300 sq ft from £1.39m to £2.34m and extended the lease by three years to 2021, with the tenant retaining a break at 2018 on 17% of the space. Both these deals exceeded ERV and improved certainty of income.

At the year-end our EPRA vacancy rate was 2.6% despite a number of completions. We started 2016 with an exceptionally low 1.3% vacancy rate which peaked at 3.3% in November 2016. We have a number of properties completing this year, which could see our vacancy rate rise to 4.5% if we achieve no further lettings.

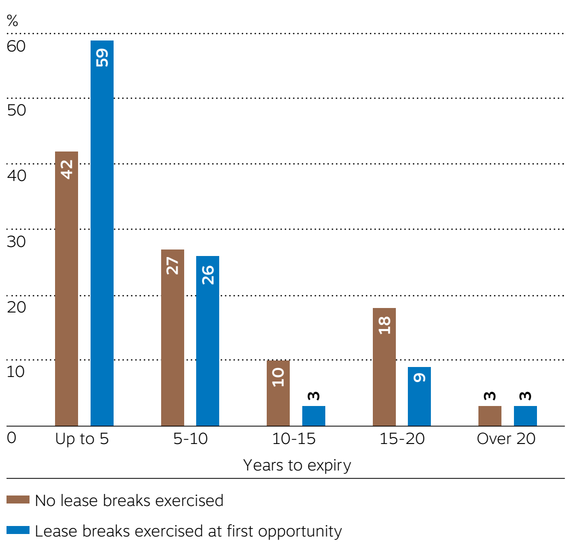
Asset management 2016

	Area sq ft	Previous rent £m pa	New rent £m pa	Change	Income v Dec 15 ERV
Rent reviews	395,500	12.91	18.32	+41.9%	+9.8%
Lease renewals	23,900	0.93	1.13	+21.3%	-3.4%
Lease regears	174,600	5.67	9.07	+59.9%	+16.3%
Total	**594,000**	**19.51**	**28.52**	**+46.1%**	**+11.1%**

Portfolio management

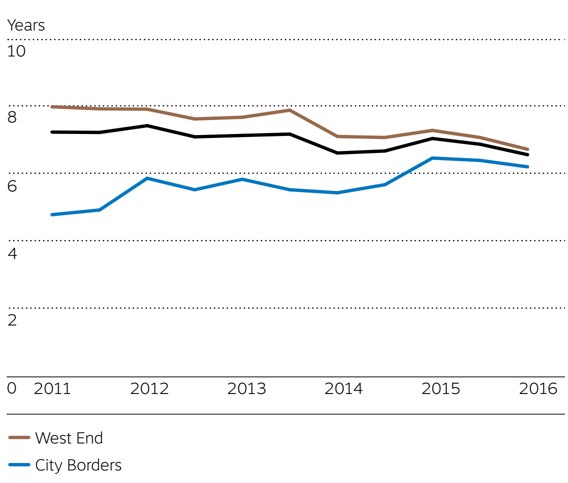
continued

Profile of rental income expiry[1]



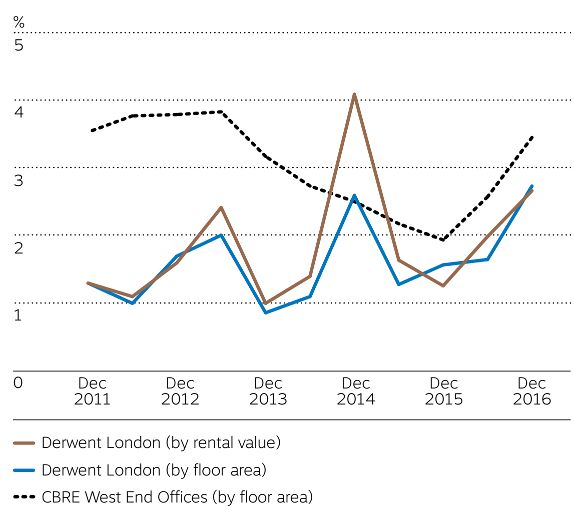
[1] Based upon annualised net contracted rental income of £150.3m.

Average unexpired lease length[1]



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

Five-year vacancy trend



Lettings in 2017

Since the year end we have pre-let the 13th floor at The White Collar Factory EC1 to Adobe, who had already taken two other floors in the tower. The new letting comprises 14,900 sq ft for a rent of £1.0m pa or £67.50 per sq ft. It is for 11.5 years and incorporates a minimum uplift with a cap and a floor on rental review in five years' time. Adobe received incentives equivalent to 22 months rent free.

We have also made our first pre-letting at 80 Charlotte Street W1, where Arup have agreed to take 133,600 sq ft of offices in the main building taking it to 41% pre-let. They have signed a 20 year unbroken lease at an initial rent of £9.74m, which is equivalent to £75 per sq ft on the main office floors. This income stream will rise by 2.25% pa for the first fifteen years of the lease at which point there is an upward only open market review. After allowing for the impact of the indexation the average rent over the first five years is in line with our December 2016 ERV for the lower floors. In return Arup is receiving incentives equivalent to 33 months rent free. They also have an option to take another 40,700 sq ft.

As reported earlier, the Group has regeared a number of leases with the Expedia group and Cancer Research UK at Angel Building, Islington EC1. Expedia will occupy at least 231,400 sq ft or 93% of the office space from 2020 and has extended its tenure from 2021 to 2030. There are minimum rental uplifts on reviews in 2020 and 2021. In return Expedia will receive incentives equivalent to 21 months rent free. The income from the total office element of the building will rise from £13.3m to a minimum of £15.0m in 2020.

Projects

We have made **substantial progress** in pre-letting **73%** of our 2017 project deliveries, up from **22%** in December 2015.

Simon Silver
Executive Director

Derwent London is principally a property investor and asset manager, with developments representing 13% of our portfolio by value. These come with a major £363m capital expenditure commitment and an element of operational risk resulting from our approach of starting schemes speculatively. However we do not commit to projects that would unduly stress the balance sheet and only start schemes where we believe the risk/reward ratio is attractive. We have a track record of de-risking our projects as they progress, and our potential profit margins allied to a long-term investment approach allow us significant flexibility on lease terms. Our success in this regard can be seen in the substantial progress we have made in pre-letting 292,000 sq ft or 73% of our 2017 deliveries, which compares to 22% in December 2015.

The delivery of construction projects across the London market continues to be tested this cycle which has led to some delays. White Collar Factory is nearing completion a few months behind our original schedule. The 237,000 sq ft tower building is 80% pre-let with only the top two and a half floors available. The half floor is under option until six months after practical completion. We are now focused on marketing the lower rise buildings surrounding the new open space. Currently we have pre-let 15,600 sq ft of this office space, and 9,000 sq ft of retail is conditionally under offer, which leaves 23,400 sq ft of lower rise offices and the 8,000 sq ft residential space still to let. The ERV of the project is £16.9m and the remaining capital expenditure is £11m.

Last year we announced the pre-letting of the office element of The Copyright Building for twenty years at an average rent of £86 per sq ft thereby largely de-risking the project. We have just started to market the remaining 20,000 sq ft of retail and restaurant space. The project remains on course for delivery in the second half of this year. The ERV of the building is £7.3m net, and the remaining capital expenditure is £24m.

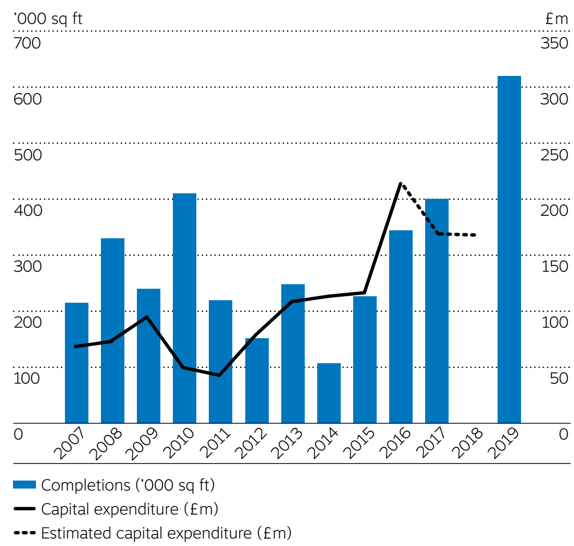
Projects
continued

We considered delaying Brunel Building following the Brexit vote. In the event the Group made the decision to continue work due to the development's merits and good levels of occupier interest. This canalside building will provide column-free floors and is located opposite a Crossrail station. Though it caught up a bit in 2016, Paddington has lagged much of central London this cycle and has seen limited development activity. We believe current rental levels are attractive, and the opening of Crossrail in 2018 will significantly enhance eastward public transport links to central West End and the City. Outstanding capital expenditure totals £99m and the ERV is £14.8m net or £62.50 per sq ft. We estimate our breakeven rent at c.£46 per sq ft.

80 Charlotte Street is our largest current project and demolition is underway. The space is designed to be multi-let and comprises three buildings. The largest is 309,000 sq ft of offices and 14,000 sq ft retail. There is an adjoining 14,000 sq ft private residential building and a smaller property opposite at 53-65 Whitfield Street comprising 12,000 sq ft of offices, 21,000 sq ft private residential and 10,000 sq ft affordable residential. With outstanding capital expenditure of £213m and an ERV of £26.4m, this is our most significant current project. The ERV is based off an average office rent of c.£80 per sq ft, whereas we estimate our breakeven rent at c.£58 per sq ft. Since the year end, we have pre-let 133,600 sq ft of the largest building to Arup at a rent of £9.7m. More details of this transaction are discussed under Portfolio Management above, and under Investment Activity below.

During 2016 we had an unusually high level of refurbishment activity, principally due to our opportunistic acquisition of The White Chapel Building E1 with vacant possession. In addition we had projects at 20 Farringdon Road EC1, 78 Whitfield Street W1 and 78 Chamber Street E1. Adjusting for the joint venture interest at Chamber Street these projects totalled 326,000 sq ft and all were completed during the year. They are now 71% let producing £11.7m of rent. The remaining 93,000 sq ft has an ERV of £4.4m. In the current year we will consider whether to commit to Phase 2 at The White Chapel Building, which comprises 85,000 sq ft of ground and lower ground floor space.

Completions and capital expenditure



Longer term we have planning consent for two well-located schemes including 1 Oxford Street W1, the site over the eastern Tottenham Court Road Crossrail station. The other major scheme located immediately south of the White Collar Factory is Monmouth House EC1, where last year we received consent to replace two tired properties with a new 125,000 sq ft project: this represents an 81% uplift in area. We have flexibility as to when to start both projects. Beyond that we believe another 25% of our portfolio, or 1.5m sq ft, has redevelopment or refurbishment potential which means that our overall portfolio remains rich with opportunity.

Major developments pipeline

Property	Area sq ft	Delivery	Capex to complete £m	Comment
Projects on site				
White Collar Factory, Old Street Yard EC1	293,000	Q1 2017	11	276,000 sq ft offices, 9,000 sq ft retail, 8,000 sq ft residential – 70% pre-let overall[5]
The Copyright Building, 30 Berners Street W1	107,000	H2 2017	24	87,000 sq ft offices and 20,000 sq ft retail – 81% pre-let overall
Brunel Building, 55 North Wharf Road W2	240,000	H1 2019	99	Offices
80 Charlotte Street W1	380,000	H2 2019	213	321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail – 35% pre-let overall[5]
	1,020,000		**347**	
Other major planning consents				
1 Oxford Street W1	275,000			204,000 sq ft offices, 37,000 sq ft retail and 34,000 sq ft theatre
Monmouth House EC1[1]	125,000			Offices, workspaces and retail
	400,000			
Planning applications				
19-35 Baker Street W1	293,000			Planning application submitted for 206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail
Grand Total	**1,713,000**			

Project summary – on site

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2017 capex £m	2018 capex £m	2019+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
White Collar Factory EC1	–	124	293	11	–	–	11	Q1 2017	£60
The Copyright Building W1	(0.4)	86	107	24	–	–	24	H2 2017	£80
Brunel Building W2	(0.1)	78	240	46	49	4	99	H1 2019	£62.50
80 Charlotte Street W1	–	234	380	51	102	60	213	H2 2019	£80
	(0.5)	522	1,020	132	151	64	347		
Other	–	–	–	16	–	–	16		
Committed projects	**(0.5)**	**522**	**1,020**	**148**	**151**	**64**	**363**		
Planning and design	–	–	–	8	1	–	9		
Other	–	–	–	2	3	10	15		
	–	**–**	**–**	**10**	**4**	**10**	**24**		
Total	**(0.5)**	**522**	**1,020**	**158**	**155**	**74**	**387**		
Capitalised interest	**–**	**–**	**–**	**11**	**13**	**14**	**38**		
Total including interest	**(0.5)**	**522**	**1,020**	**169**	**168**	**88**	**425**		

Project summary – potential future schemes

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
1 Oxford Street W1	–	–	275	2018	Offices, retail and theatre
Monmouth House EC1[1]	0.6	69	125	2020	2016 consent – Opposite White Collar Factory
	0.6	**69**	**400**		
Appraisals[2]					
19-35 Baker Street W1[3]	5.8	146	293	2018	Joint venture – 55% Derwent London interest
Premier House SW1	2.2	62	80	2018	
Network Building W1	1.9	64	100	2021	
Francis House SW1[4]	3.1	90	130	TBC	
Holden House W1	6.0	91	150	TBC	
	19.0	**453**	**753**		
Adjustments for JVs	(2.6)	(66)	(132)		19-35 Baker Street W1
	16.4	**387**	**621**		
Consented and appraisals	**17.0**	**456**	**1,021**		
On-site projects	**(0.5)**	**522**	**1,020**		From table above
Pipeline	**16.5**	**978**	**2,041**		

[1] Includes 19-23 Featherstone Street EC1.
[2] Areas proposed are estimated from initial studies.
[3] Includes 88-110 George Street, 30 Gloucester Place and 69-85 Blandford Street.
[4] Includes 6-8 Greencoat Place SW1.
[5] At 28 February 2017.

Investment activity

With virtually all our transactions in the second half of the year, 2016 was another year of **net property disposals**. Our one acquisition has given us the option to refurbish Phase 2 of The White Chapel Building.

David Silverman
Executive Director

We comfortably exceeded our initial sales target during the year with virtually all our transactions in the second half. The three major office property sales comprised investments where we considered that the potential to add further significant short term value was limited. At Balmoral Grove N7 we had previously conditionally sold the property for residential redevelopment. All these conditions, including receipt of planning consent, were achieved during the year. We retain a potential overage interest in this property as well as at Riverwalk House SW1, which was sold in 2012 and where the residential development was completed in 2016. Any future profits will be dependent on the success of each scheme, and currently no value is attributed to these potential gains in our balance sheet. Earlier in the year we sold our remaining available residential units at The Corner House, 73 Charlotte Street W1, and Queens W2. In total we raised £224.7m of cash from sales in 2016.

As there were few acquisition opportunities that met our criteria during the year we acquired only one property, which was the long leasehold interest in one of the lower ground floors at The White Chapel Building. This has given us the option to refurbish Phase 2 as discussed on page 48.

Principal disposals 2016

Property	Date	Area sq ft	Net proceeds £m	Net proceeds £ psf	Net yield to purchaser %	Rent £m p
75 Wells Street W1	Q3	34,800	40.3	1,160	2.9	1.3
Balmoral Grove N7	Q4	67,000	23.9	n/a	n/a	0.0
Tower House WC2	Q4	53,700	65.9	1,230	4.3[1]	3.1[1]
120-134 Tottenham Court Road W1 (retail and 330 room hotel)	Q4	26,400[2]	68.9	n/a	3.1	2.3
Total	**–**	**181,900**	**199.0**	**n/a**	**–**	**6.7[1]**

[1] Includes rental top-ups for vacant space and rent free periods.
[2] Retail space only.

Principal acquisition 2016

Property	Date	Area sq ft	Total cost £m	Total cost £ psf	Net yield %	Net rental income £m pa	Net rental income £ psf	Lease length Years
The White Chapel Building E1[1]	Q1	30,500	12.0	395	–	–	–	–

[1] Lower ground floor. Main building purchased in December 2015.

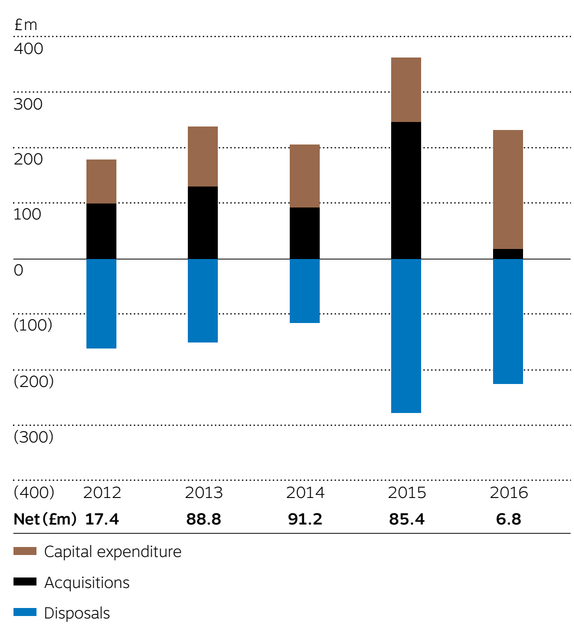
Disposals in 2017

Since the year end we have agreed to sell two office buildings for £327m before costs.

The larger of these was a conditional put and call option to sell 8 Fitzroy Street W1 for £197m. This freehold property comprises 147,900 sq ft let to Arup for a rent of £7.2m. The purchaser is Arup and the transaction formed part of the pre-letting negotiations at 80 Charlotte Street W1 discussed above. The disposal price reflects a net initial yield of 3.4% and a premium of 2.8% before costs to its December 2016 value. Completion is expected on 23 June 2017.

The second disposal is the freehold of 132-142 Hampstead Road NW1 which we have agreed to sell to the Secretary of State for Transport for £130m. This property provides 219,700 sq ft and is let to University College London for £1.7m. We acquired the property in 2007 and achieved planning for 233,000 sq ft of offices and 38 residential units. The new offices were designed to be our first White Collar Factory, but we were unable to carry our plans forward due to the proposals to build HS2 announced in 2012. The December 2016 book value of £115m did not reflect the full benefit of the very valuable planning consent.

Net investment



Finance review

In a year dominated by unexpected political events and increased uncertainty, Derwent London has reported further recurring earnings growth, **a step change** in the proposed **final dividend** and a small **increase in net asset value** backed up by a **very strong financial position**.

Damian Wisniewski
Finance Director

After several years where large valuation uplifts provided substantial net asset value increases for the Group, in 2016 the net asset value attributable to equity shareholders marginally increased by £10m, with the IFRS net asset value (NAV) remaining at the same rounded £4.0bn reported a year ago. The combination of a maturing London office property cycle and the EU referendum vote, among other things, gave rise to an outward yield movement on our portfolio averaging 31bp in 2016. This was partially offset by the positive impact of continuing rental growth, record letting successes and strong rent review settlements but the portfolio valuation was down as a result in H2 2016. The fall was lower than we had anticipated in the immediate aftermath of the June EU vote and was more than offset by retained recurring earnings. We have also been able to demonstrate that our carrying values remain supported by transactional evidence with £208m of property investment disposals in H2 2016 at an average price 3.7% above December 2015 book values.

These property sales had another benefit as available undrawn facilities increased by the year end to the extent that our committed development pipeline was fully funded at December 2016.

Summary

	2016	2015
IFRS NAV	**£3,999.4m**	£3,995.4m
EPRA NAV per share	**3,551p**	3,535p
Property portfolio at fair value	**£4,942.7m**	£4,954.5m
Net rental income	**£145.9m**	£138.7m
Profit before tax	**£54.5m**	£779.5m
EPRA earnings per share (EPS)	**76.99p**	71.34p
Dividend per share	**52.36p**	43.40p
LTV ratio	**17.7%**	17.8%
NAV gearing	**22.6%**	22.8%
Net interest cover ratio	**370%**	362%

Earnings per share and profit before tax on an IFRS basis include fair value movements arising from the revaluation of investment properties and interest rate hedging instruments and can therefore be volatile from year to year. Those fair value movements have moved from a net £657.6m uplift in 2015 to a £36.8m downward movement in 2016 with the result that the IFRS profit before tax was £54.5m in 2016, down from £779.5m in 2015. In common with best practice in our sector, alternative performance measures are also provided to supplement IFRS guidance based on the recommendations of the European Public Real Estate Association ('EPRA'). EPRA Best Practice and Policy Recommendations (BPR) have been adopted widely throughout this report and are often used within the business when considering our recurring operational performance as well as matters such as dividend policy and elements of our Directors' remuneration.

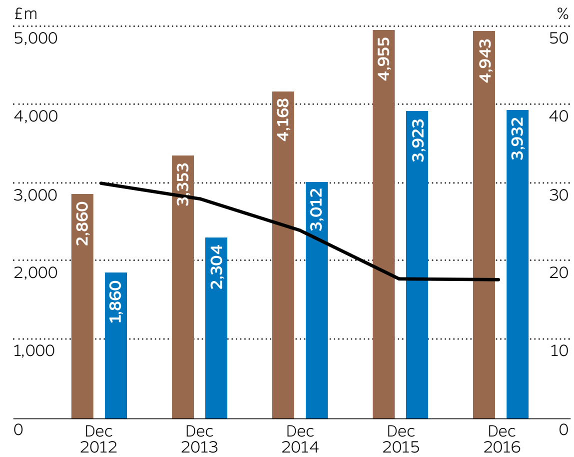
EPRA NAV per share on a diluted basis was up by 16p to 3,551p from 3,535p in 2015.

EPRA earnings increased more strongly with a 8.9% rise to £85.7m (2015: £78.7m) and EPRA earnings per share increased by 7.9% to 76.99p. Building on the substantial 31% rise in recurring profits in 2015 and with our pipeline out to 2019 now substantially de-risked due to recent lettings, we believe that this progress justifies the decision to propose a 25% increase in the final dividend. The total annual dividend remains 1.5 times covered by EPRA earnings per share at this level.

Our gearing ratios have fallen again too, though only marginally. They now stand at the lowest level for many years. The Group's loan-to-value ratio was 17.7% at 31 December 2016 (2015: 17.8%) and NAV gearing was down to 22.6% from 22.8% in 2015. Interest cover has also risen again to 370% in 2016 against 362% in 2015.

The property sales and letting progress announced with these results are expected to lead to a reduction in debt levels of £327m by June 2017. They also further de-risk the pipeline and provide additional long-dated income for the Group. The net impact of these transactions is expected to add 56p per share to the net asset value. Combined with the low level of existing gearing, the Directors are therefore proposing a special dividend of 52p per share to be paid along with the final dividend in June 2017.

Property portfolio value, net assets and gearing



Net asset value

The net asset value of the Group was almost unchanged in 2016, retained profits after dividends being almost exactly matched by the downward fair value movements on our property portfolio and interest rate swaps. IFRS net asset value increased marginally to £3,999.4m against £3,995.4m in 2015 and EPRA diluted NAV per share increased to 3,551p per share at 31 December 2016, up from 3,535p a year earlier. The main reason for the increase in EPRA NAV per share during 2016 came from the removal of dilution in relation to our 2019 convertible bonds following the decline in share price during the year to a level below the conversion price of 3,335p. The movements in NAV per share during the year are summarised below compared with the prior year:

	2016 p	2015 p
Revaluation[1]	**(38)**	581
Profit on disposals	**7**	39
EPRA earnings	**77**	71
Dividends paid (net of scrip)	**(44)**	(30)
Interest rate swap termination costs	**(8)**	(6)
Dilutive effect of convertible bonds	**17**	(17)
Non controlling interest	**7**	(8)
Other	**(2)**	(3)
	16	627

[1] Including share of joint ventures.

Finance review

continued

A detailed reconciliation showing adjustments from the IFRS to EPRA NAV per share is shown in note 37 to the financial statements and explanations of the valuation movement for the year are provided within the Valuation section.

Excluding joint ventures the total revaluation deficit for the year was £44.2m (or 0.9% of the portfolio value) of which £1.6m was in respect of apartments under construction held as trading stock and £5.5m related to the portion of 25 Savile Row W1 that we occupy; the balance of £37.1m related to investment properties. In addition, the Group's share of the joint venture revaluation surplus was £1.8m.

As a REIT, we generally do not provide for deferred tax on upward property revaluations. The main exception is for the properties that we hold around Baker Street W1 in a joint venture with the Portman Estate (TPE). The split of ownership is 55%/45% in our favour and we have operational control. As a result, we consolidate these properties and provide for deferred tax on our share of the 45% outside the REIT regime as well as recognising a non-controlling interest in relation to TPE's share. The value of these properties declined in 2016 which is the main reason behind the reduction in the deferred tax liability to £3.1m (2015: £5.5m) and the non-controlling interest to £67.1m (2015: £72.9m).

It is also worth noting that the accrued income, which arises as a result of the 'straight-lining' of rental income under IAS17 and SIC15, reached £116.9m (2015: £97.0m) by the year end. This takes account of rent-free and reduced rent periods, other tenant incentives and fixed future rental uplifts. Part of the overall portfolio fair value is allocated to this balance, the overall split being as follows:

	2016 £m	2015 £m
Investment property	4,803.8	4,832.3
Owner-occupied property	34.2	36.1
Trading property	11.7	10.5
Carrying value	**4,849.7**	**4,878.9**
Trading property fair value adjustment	–	1.8
Lease incentives and costs included in receivables	116.9	97.0
Headlease liabilities gross-up	(23.9)	(23.2)
Fair value	**4,942.7**	**4,954.5**

In addition, the Group owns £37.8m of properties in two joint ventures, this figure representing our 50% share of those properties at fair value. The net carrying value of the investments as at 31 December 2016 was £36.0m (2015: £30.7m).

Medium and longer term interest rates fell in the UK during the year with very significant declines around the middle of 2016 followed by some subsequent correction. The mark-to-market cost of our interest rate swaps would have risen accordingly but, as a result of £9.0m paid to terminate or re-profile swaps during the year, it was reduced from £17.6m to £17.3m. The decline in longer term rates also fuelled a £24.5m increase in the fair value adjustments for our long-term fixed rate debt and bonds but this was almost matched by a £22.0m reduction in respect to the 2019 convertible bonds, the latter movement due to the lower share price. After taking these movements into account, diluted EPRA triple net asset value fell marginally to 3,450p per share (2015: 3,463p).

Income statement

It was noted in our 2015 finance review that we were progressing through a long London office property cycle and that, as that cycle matures, the recurring income component of our total return business model should increase. Capturing rental reversion and growing earnings have been among our main themes in 2016, balanced by our development activity and our property disposals.

Gross rental income increased by 4.8% to £155.4m and net rental income by 5.2% to £145.9m. With lower levels of trading activity on residential apartments in 2016 and a £1.6m write-down on

Cost ratios

	2016 %	2015 %
EPRA cost ratio, incl. direct vacancy costs	**24.0**	24.3
EPRA cost ratio, excl. direct vacancy costs	**22.4**	22.3
Portfolio cost ratio, incl. direct vacancy costs	**0.8**	0.7

the trading stock under development at 80 Charlotte Street W1, net property and other income was only marginally higher at £149.2m in 2016 against £148.6m in 2015. The prior year figure also included £3.7m of compensation received from contractors on schemes delivered late.

In a year when net property dispositions were higher than usual, rental income was down £5.1m due to disposals and only increased by £0.3m due to acquisitions. The main rent increases came from lettings and reviews which added £21.1m while rent reductions from lease breaks, expiries and voids totalled £5.3m and with £3.9m from schemes commencing.

Administrative expenses increased by 3.0% to £30.9m in 2016 but the trend is down as the reported figure takes account of a bonus under-provision in 2015 of £0.9m.

Our EPRA cost ratios were similar to the previous year at 24.0% (2015: 24.3%) of adjusted gross rental income including direct vacancy costs and 22.4% (2015: 22.3%) excluding those costs. As in previous years, no overheads or property costs were capitalised.

In more uncertain market conditions, investor appetite for London offices has held up more strongly than most expected and we were able to book a profit of £7.5m on disposal proceeds of £210.6m in 2016, most of which came after the EU referendum vote. In addition, there was a £1.9m trading profit on the sale of apartments during the year.

Total finance costs reduced from £35.2m in 2015 to £27.8m in 2016 after capitalising £13.0m of interest, £4.7m of which related to phase 1 of The White Chapel Building up to the date of practical completion in October 2016. Because it was acquired as a vacant property in December 2015, interest was capitalised on the purchase price as well as the subsequent development costs. The rent already contracted from the building is £7.0m so, post practical completion when the capitalisation of interest ceased, the net impact upon future earnings is expected to be positive.

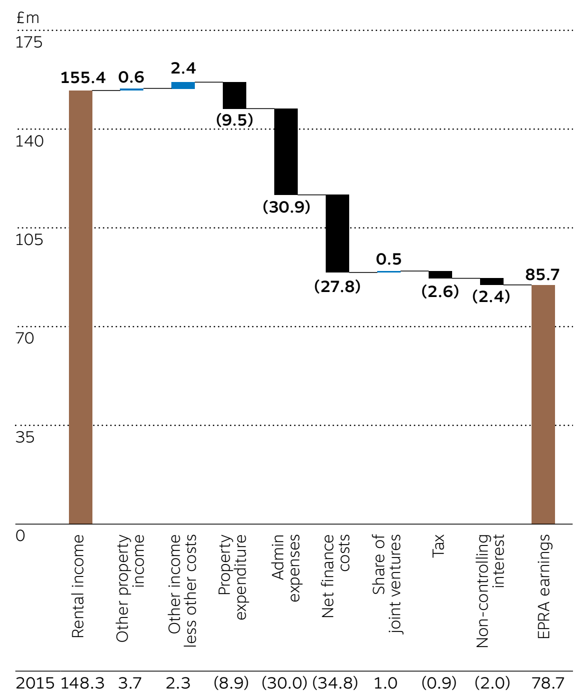
Following the sale of the Grafton Hotel property in December 2016, we decided to break £10m of interest rate swaps and to reduce the rate payable under a further £135m of swaps. This cost £6.6m in total. With £2.4m paid to defer a £70m forward start swap by a further 12 months, total swap breakage costs were therefore £9.0m in 2016.

After allowing for the revaluation deficit on our property portfolio, the overall result was an IFRS profit for the year of £53.6m, down substantially from the £777.2m reported for the year ended 31 December 2015. Adjusting for profits on disposal, fair value movements and other items which are non-recurring in nature, EPRA earnings increased by 8.9% from £78.7m in 2015 to £85.7m for the year ended 31 December 2016.

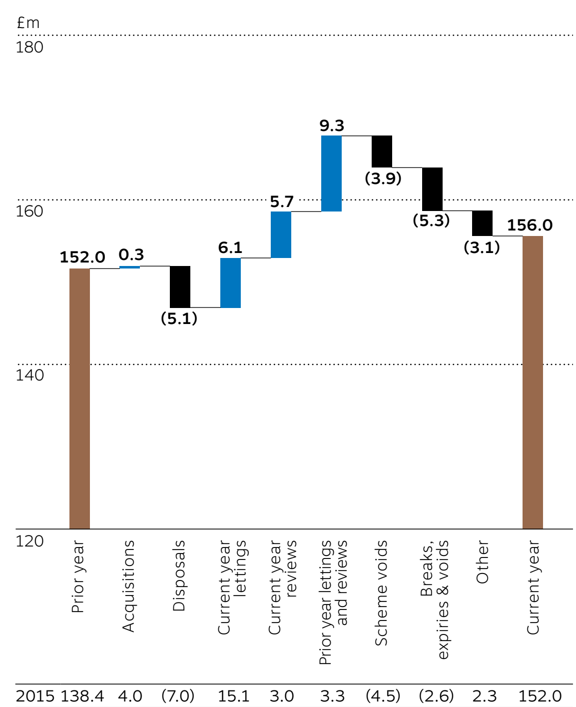
A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 37.

After removing the impact of development activity, acquisitions and disposals, EPRA like-for-like gross rental income increased by 5.1% during the year with net property income on a similar basis up by 5.7%. A full analysis is shown in the table below.

EPRA earnings



Gross property income



Finance review

continued

EPRA like-for-like rental income

	Properties owned throughout the year £m	Acquisitions £m	Disposals £m	Development Property £m	Total £m
2016					
Rental income	**120.8**	**5.4**	**3.0**	**26.2**	**155.4**
Property Expenditure	(4.6)	(1.0)	(1.0)	(2.9)	(9.5)
Net rental income	**116.2**	**4.4**	**2.0**	**23.3**	**145.9**
Profit on disposal of trading properties	–	–	1.9	–	1.9
Write-down of trading property	–	–	–	(1.6)	(1.6)
Other[1]	2.8	0.1	–	0.1	3.0
Net property income	**119.0**	**4.5**	**3.9**	**21.8**	**149.2**
2015					
Rental income	114.9	3.1	8.1	22.2	148.3
Property Expenditure	(5.0)	(0.2)	(1.0)	(3.4)	(9.6)
Net rental income	109.9	2.9	7.1	18.8	138.7
Profit on disposal of trading properties	–	–	3.2	–	3.2
Other[1]	2.7	–	0.6	3.4	6.7
Net property income	112.6	2.9	10.9	22.2	148.6
Increase based on gross rental income	**5.1%**				4.8%
Increase based on net rental income	**5.7%**				5.2%
Increase based on net property income	**5.7%**				0.4%

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

Taxation

The corporation tax charge for the year ended 31 December 2016 increased to £2.0m in 2016 from £1.9m in the previous year, due to the profits arising on the sale of residential apartments that were held as trading stock and therefore outside the REIT tax environment.

The movement in deferred tax liabilities for the year was a credit of £2.4m. This was made up of £1.1m (2015: £0.4m debit) passing through the income statement due to the change in tax rates and the valuation impact for non-REIT Group properties and £1.3m in relation to the owner-occupied property at Savile Row.

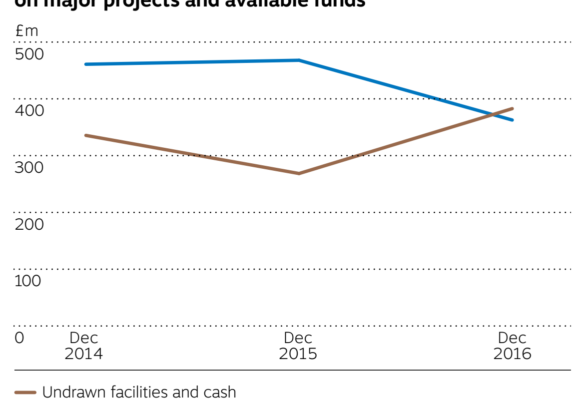
In addition, and in accordance with our status as a REIT, £5.6m of tax was withheld from shareholders on property income distributions and paid to HMRC during the year. The Company also made significant contributions to the UK public finances on a wide range of taxes borne and collected during the year.

We have recently issued a statement of tax principles and this is included on our website at www.derwentlondon.com. The statement explains our approach to taxation, founded on the principle of retaining our low risk tax status with HMRC.

A fully funded committed pipeline

The combination of property disposals and £105m of new debt capacity means that the Group's committed pipeline of projects was fully funded as at 31 December 2016. Available undrawn facilities and cash totalled £383m and our committed pipeline stood at £363m at 31 December 2016.

Committed capital expenditure on major projects and available funds



Our refinancing activities during 2016 were focused on arranging some more long-term fixed rate debt in the capital markets to further diversify our funding sources, to extend our overall debt maturities and fix into attractive long-term rates. We also extended both our revolving bank facilities and reduced the mark-to-market exposure on our interest rate swaps.

In May 2016, we drew down £105m of new 12 and 15-year US private placement notes that were arranged in February 2016. Full details were provided in our 2015 report and so are not repeated here but we were very pleased to welcome three new lending relationships to the Group.

At the year end, the Group had £613m of fixed rate debt, including £150m of convertible bonds due in 2019, with a weighted average interest rate payable of 4.0%. This rate takes account of the £175m 2026 bonds at 6.5% issued by London Merchant Securities in 2001. We have considered refinancing these to lower our overall cost of debt but concluded for now that such arrangements would be neutral at best from a net present value standpoint. It remains a matter for future consideration.

Our principal bank facilities, which are fully revolving and unsecured, included two one-year extension options on top of their original five-year terms. The first extension option for our £75m Wells Fargo facility was exercised just before the middle of the year. This facility now has a term date of July 2021 with the second one-year extension option remaining, subject to the usual consents. We also extended the maturity of the £550m unsecured revolving bank facility, £450m of the facility amount now falling due in January 2022. The remaining £100m retains a January 2021 repayment date but we have agreed an accordion option for this portion which could extend the effective repayment date to January 2022.

These steps have helped us take the weighted average maturity of our debt to 7.7 years at December 2016, up from 7.3 years a year earlier.

We have also reduced the interest rates payable under our swaps to compensate for the higher rates payable under the long dated USPP notes when compared to our marginal bank loan rates of 1.5%. In April 2016, we extended the maturity of a £70m interest rate swap from April 2019 to April 2023 at no cost, thereby reducing the rate payable from 2.00% to 1.74%. Then, in December, we cancelled £10m of swaps and re-set the rates payable under a further £135m for an overall cost of £6.6m. As a result, at December 2016 the Group held £243m of swaps at an average rate of 1.82% compared with £253m at a rate of 2.44% a year earlier. The £70m forward start swap has also been deferred to March 2017 at a cost of £2.4m.

Taking all of this into account, the overall interest rate paid on our debt at 31 December 2016 fell slightly to 3.65% (2015: 3.68%). Under IFRS accounting, an additional interest charge is taken against earnings to unwind the equity component of convertible bonds; allowing for this takes the notional interest rate to 3.90% at the year-end (2015: 3.93%).

The proportion of our debt that is fixed or swapped into fixed rates was 95% as at 31 December 2016 excluding the £70m forward start swap. The proportion increased over the year due to the additional fixed rate debt arranged and the property disposals which occurred towards the end of the year.

Debt facilities

	£m	£m	Maturity
6.5% secured bonds		175	March 2026
3.99% secured loan		83	October 2024
1.125% unsecured convertible bonds		150	July 2019
4.41% unsecured private placement notes		25	January 2029
4.68% unsecured private placement notes		75	January 2034
3.46% unsecured private placement notes		30	May 2028
3.57% unsecured private placement notes		75	May 2031
Committed bank facilities			
Term – secured	28		June 2018
Bilateral revolving credit – unsecured	75		July 2021
Club revolving credit – unsecured	100		January 2021
Club revolving credit – unsecured	450		January 2022
		653	
At 31 December 2016		**1,266**	

Finance review

continued

Net debt and cash flow

Capital expenditure in 2016 was our highest to date at £213.5m including capitalised interest of £13.0m. We spent £18.0m on property acquisitions during the year, almost entirely relating to The White Chapel Building, £6.0m of which was Stamp Duty Land Tax in connection with the acquisition of the main part of the building in the previous year. As a result, the cash invested in the portfolio marginally exceeded disposal proceeds of £224.7m from the sale of properties.

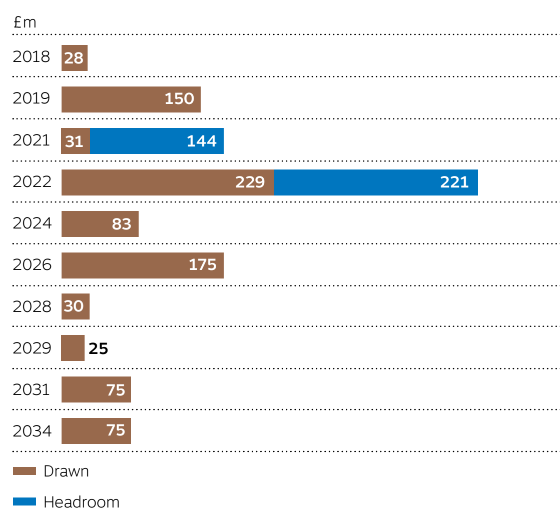
With the net cash from operating activities increasing to £77.7m from £76.0 in 2015, after allowing for a £5.3m incentive paid to Capita and their existing landlord to enable them to lease office space at the Copyright Building, net debt was almost unchanged at December 2016 from a year beforehand at £904.8m (2015: £911.7m). This included a higher cash balance than usual following the sale of the Grafton Hotel, a property charged to one of our lenders. We were in the course of documenting the substitution of new replacement security at the year end and, accordingly, £10m of cash was held in a restricted bank account. It will be released once the new security is in place.

Dividend

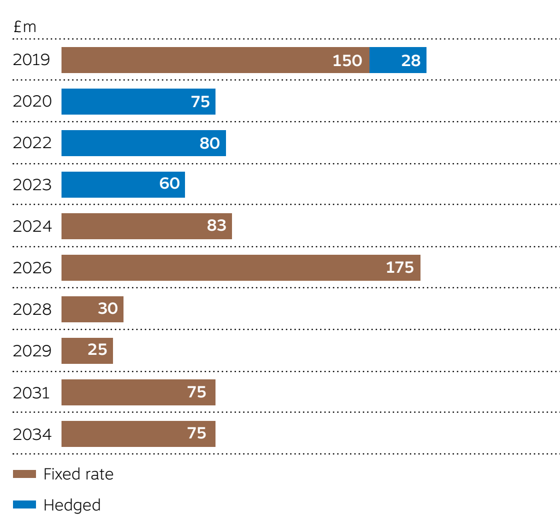
With the 25% increase in recurring earnings per share in 2015 followed by a 7.9% increase in 2016, dividend cover has increased significantly in the last two years. The final dividend was increased by 10% in 2015 but, now that we have let the main part of the development pipeline through to the end of 2018 and with continuing low vacancy rates in our portfolio and the expectation of further growth in recurring earnings in the next few years, the Board has recommended a 25.0% increase in the proposed final dividend to 38.50p per share for payment to shareholders on the register on 5 May 2017 to be paid on 9 June 2017. 32.70p will be paid as a PID and the balance of 5.80p as a conventional dividend. The interim and final dividend for the year will be 52.36p per share, an increase of 20.6% over last year. There will not be a scrip dividend alternative. It is also intended that the 2017 interim dividend will be increased by 25%.

In addition, following the value-enhancing transactions announced with these results and taking account of the impact upon our already low gearing, a special dividend of 52.00p per share is being proposed to be paid at the same time as the final dividend in June 2017.

Maturity profile of debt facilities as at 31 December 2016



Maturity profile of fixed rates and swaps as at 31 December 2016



Debt summary

	2016 £m	2015 £m
Bank loans		
Floating rate	**44.5**	137.5
Swapped	**243.0**	253.0
	287.5	390.5
Non-bank debt		
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Unsecured private placement notes 2028 – 2034	**205.0**	100.0
	613.0	508.0
Total	**900.5**	898.5
Hedging profile (%)		
Fixed	**68**	57
Swaps	**27**	28
	95	85
Percentage of debt that is unsecured (%)	**68**	68
Percentage of non-bank debt (%)	**68**	57
Weighted average interest rate – cash basis (%)	**3.65**	3.68
Weighted average interest rate – IFRS basis (%)	**3.90**	3.93
Weighted average maturity of facilities (years)	**6.9**	6.8
Weighted average maturity of borrowings (years)	**7.7**	7.3
Undrawn facilities and cash	**383**	269
Uncharged properties	**3,777**	3,709

Net debt

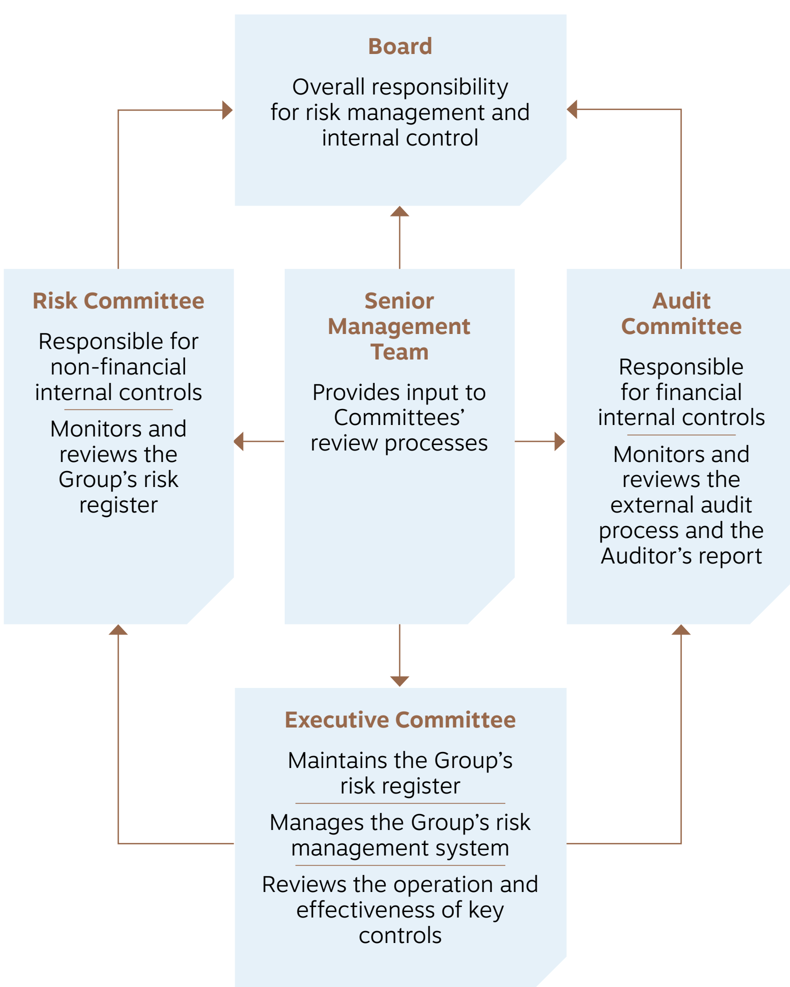
	2016 £m	2015 £m
Cash	**(17.7)**	(6.5)
Bank facilities	**287.5**	390.5
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
Acquired fair value of secured bonds less amortisation	**14.0**	15.0
3.46% unsecured private placement notes 2028	**30.0**	–
4.41% unsecured private placement notes 2029	**25.0**	25.0
3.57% unsecured private placement notes 2031	**75.0**	–
4.68% unsecured private placement notes 2034	**75.0**	75.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Equity components and unwinding of discounts on convertible bonds	**(5.6)**	(7.7)
Leasehold liabilities	**23.9**	23.2
Unamortised issue and arrangement costs	**(10.3)**	(10.8)
Net debt	**904.8**	911.7

Gearing and interest cover ratio

	2016 %	2015 %
Loan-to-value ratio	**17.7**	17.8
NAV gearing	**22.6**	22.8
Net interest cover ratio	**370**	362

Risk management

Derwent London aims to **deliver its strategic objectives** whilst operating within a **risk envelope** defined by the Group's **risk appetite**. The Board recognises that risks are inherent in running any business and uses the Group's **risk management system** to ensure that risks to the Group's strategy are **identified, understood and managed**.



Risk organisational structure

The Board has overall responsibility for risk management and the Group's system of internal controls. To assist with carrying out this task, the Board has delegated responsibility to the Audit Committee and the Risk Committee. Executive Management is responsible for developing and operating the Group's risk management system and for designing, implementing, maintaining and evaluating the system of internal control. The diagram illustrates the Group's risk management structure.

Risk management and culture

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

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

The Group's risk management framework consists of its Risk Management Policy, Risk Appetite Statement and Risk Management Process Document. The framework is designed to identify and manage the risks faced by the business recognising that not all risks can be eliminated at an acceptable cost and that there are some risks that, given its experience, the Board will choose to manage and accept.

In compliance with Code Provision C.2.1 of The UK Corporate Governance Code, the Board has carried out a robust assessment of the principal risks and uncertainties facing the Group. The core element of this assessment is the Group's risk register which is prepared by the Executive Committee in accordance with the Risk Management Process Document. The first stage in its preparation is for the Committee to identify the risks facing the Group. An assessment is then made collectively by the Committee of the following matters:

- The likelihood of each risk occurring.
- The potential impact of the risk on each different area of the business.
- The strength of the controls operating over the risk and the effectiveness of any mitigating actions.

This approach allows the final assessment to reflect the effect of the controls and any mitigating procedures that are in place. If the controls and mitigating actions over a risk are deemed inadequate, the Committee will agree a target risk profile together with additional controls/actions and a timetable for their implementation.

The register and its method of preparation have been reviewed by the Risk Committee. In order to gain a more comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee periodically receives presentations from senior managers and external advisers.

The Risk Committee has also monitored the Company's risk management and internal control systems primarily by regularly reviewing the set of key risk indicators that were implemented in 2015. This was supplemented by reviews of the top ten risks on the Group's risk register and the adequacy of the controls operating over these risks. Further information on the work of the Risk Committee can be found on page 105.

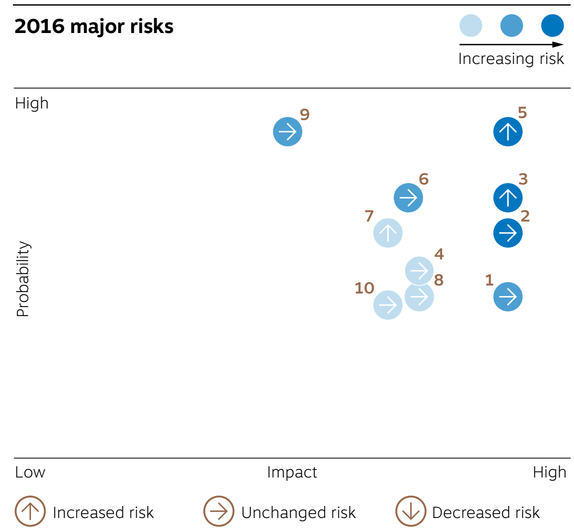
Following these reviews, the Risk Committee has confirmed to the Board that it is satisfied that the Group's risk management and internal control systems operated effectively throughout the period.

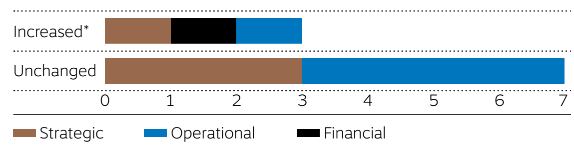
The Group's risk register includes 47 risks split between strategic risks, corporate risks, property risks (together, operational risks) and financial risks. One new risk has been added to the Group's list of principal risks this year:

- That the negotiations to leave the European Union result in arrangements that are damaging to the UK economy and/or central London.

The Board considered whether the overall increase in the level of risk faced by the Group in 2017, as illustrated by the graphs, was reasonable. It noted that only a few of the risks had abated during the year, whilst the risk surrounding Brexit was a significant new factor and cyber risk continued to increase. Taken with the general increase in both political and economic uncertainty, the Board concluded that the increase was justified.

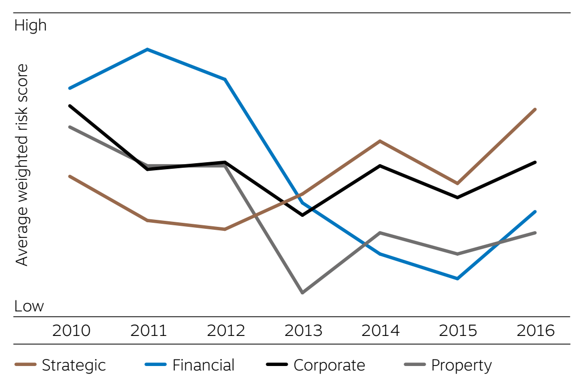
2016 major risks



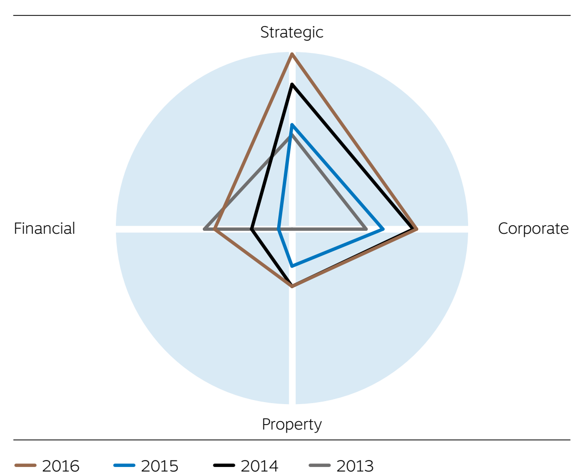


* Includes new risks.

Average risk level by category



Risk profile



Risk management

continued

The principal risks and uncertainties facing the Group in 2017 are set out on the following pages together with the potential effects, controls and mitigating factors.

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

Risk, effect and progression	Controls and mitigation	Action
1. Inconsistent strategy The Group's strategy is inconsistent with the state of its market. **2. Inconsistent development programme** The Group's development programme is not consistent with the economic cycle. Both these risks would affect the Group's ability to deliver four of its strategic objectives. Throughout most of 2016, the Group continued to benefit from a resilient central London market. However, following the EU referendum vote, sentiment became more fragile and the likelihood of the London market being adversely affected by one or more of a number of high-level economic factors remained high. If this were to occur, it would reduce the value of the Group's portfolio and the returns from its developments. This would affect two of the Group's KPIs – total return and total property return. The Board sees the level of both these risks to be broadly unchanged from last year. →	· The Group carries out an annual five-year strategic review and also prepares a budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the sensitivity of the Group's KPIs and key ratios to changes in the main assumptions underlying the forecast thereby modelling different economic scenarios. · The Group's plans are then set so as to best realise its long-term strategic goals given the most likely economic and market conditions and the Group's risk appetite. This flexibility is largely derived from the Group's policy of maintaining income from properties for as long as possible until development starts. · The level of future redevelopment opportunities in the Group's portfolio enables the Board to delay marginal projects until market conditions are favourable. · The Board pays particular attention, when setting its plans, to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover. · Pre-lets are sought to de-risk major projects.	· The last annual strategic review was carried out by the Board in June 2016. This considered the sensitivity of six key measures to changes in underlying assumptions, including interest rates and borrowing margins, timing of projects, level of capital expenditure and the extent of capital recycling. · The three rolling forecasts prepared during the year focus on the same key measures but may consider the effect of varying different assumptions to reflect changing economic and market conditions. · The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. · Approximately 43% of the Group's portfolio has been identified for future redevelopment. · During the year the Group's loan-to-value ratio remained at approximately 18%, its net interest cover ratio was above 370% and the REIT ratios were comfortably met. · Pre-lets were secured over 439,100 sq ft during 2016 and over 161,000 sq ft in 2017 to date.
3. Adverse Brexit settlement Negotiations to leave the European Union result in arrangements that are damaging to the UK economy and/or central London. This risk would affect the Group's ability to deliver all of its strategic objectives. Negotiations will take at least two years and the operating framework facing UK businesses thereafter cannot be predicted. This is a new principal risk and it would primarily affect the Group's total return and total property return KPIs. —	· The Group's strong financing and covenant headroom enables it to weather a downturn. · The Group's diverse and high-quality tenant base provides resilience against tenant default. · The Group's development pipeline has a degree of flexibility that enables the strategy for individual properties to be changed to reflect the prevailing economic circumstances. · Financially strong and reputable contractors are used with good access to available labour. · The Group's focus on good value, middle market properties makes it less susceptible to reductions in tenant demand.	· At the year end, the Group had undrawn facilities and cash of £383m. · See page 8 for an analysis of the Group's tenant base. · Income is maintained at future developments until the scheme is ready to start. · The Group's average 'topped up' office rent is only £45 per sq ft.

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

Key	
↑	Risk increase
→	Risk unchanged
↓	Risk decrease
—	New risk

Risk, effect and progression	Controls and mitigation	Action
4. Reputational damage The Group's reputation is damaged through unauthorised and inaccurate media coverage. This risk would impact on the Group's delivery of three of its strategic objectives. It would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to have remained constant over the year.	• All new members of staff benefit from an induction programme and are issued with the Group's Staff Handbook. • Social media channels are monitored by the Group's investor relations department. • The Group takes advice on technological changes in the use of media and adapts its approach accordingly. • There is an agreed procedure for approving all external statements.	• The Group employs a Head of Investor and Corporate Communications and retains the services of an external PR agency. Both maintain regular contact with external media sources. • The Company engages with a number of local community bodies in areas where it operates as part of its CSR activity.

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

Risk, effect and progression	Controls and mitigation	Action
5. Increase in property yields Increased property yields, which may be a consequence of rising interest rates, would cause property values to fall. Interest rates have remained low for an extended period and are expected to rise within the next two years. Though there is no direct relationship, this may cause property yields to increase in due course. If this risk were to occur, three of the Group's strategic objectives would be affected. It would affect the following KPIs: • Interest cover ratio. • Total return. • Total property return. The risk was assessed as high last year and the Board considers it to have marginally increased this year.	• The impact of yield changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved. • The impact of yield changes is considered when potential projects are appraised. • The Group's move towards mainly unsecured financing over the past few years has simplified management of its financial covenants.	• The Group produces three rolling forecasts each year which contain detailed sensitivity analyses, including the effect of changes to yields. • Quarterly management accounts report the Group's performance against covenants. • Project appraisals are regularly reviewed and updated in order to monitor the effect of yield changes.

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

Risk, effect and progression	Controls and mitigation	Action
6. Reduced development returns The Group's development projects do not produce the targeted financial return due to one or more of the following factors: • Delays on site. • Increased construction costs. • Adverse letting conditions. The risk would affect delivery of four of the Group's strategic objectives. This would have an effect on the Group's total return and total property return KPIs. The Board considers this risk to have remained broadly the same over the past year.	• Standardised appraisals, which include contingencies and inflationary cost increases, are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. • Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed-price contracts are entered into. • Procedures carried out before starting work on site, such as pre-work investigations, historical research of the property and surveys etc, conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on site. • The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. • Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified and implemented.	• The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • The Group's style of accommodation remains in demand as evidenced by the 63 lettings achieved in 2016 which totalled 547,500 sq ft. • The Group has often secured significant pre-lets of the space in its development programme which significantly 'de-risks' those projects. 27 pre-lets were secured in 2016 over 439,100 sq ft. A further 161,000 sq ft has been pre-let in 2017.

Risk management

continued

Operational risks (continued)

Risk, effect and progression	Controls and mitigation	Action
7. Cyber attack The Group is the victim of a cyber attack that results in it being unable to use its IT systems. The risk would affect the delivery of all the Group's strategic objectives. This would lead to an increase in costs and a diversion of management time. Increased costs would have an impact on the Group's total return KPI whilst a significant diversion of management time would have a wider effect. Although controls and procedures over the Group's IT infrastructure continue to be improved, the elevated profile of such risks means that the Board considers the risk to have increased over the year. ↑	• The Group's IT systems are protected by anti-virus software and firewalls that are continually updated. • The Group's data is regularly backed up and replicated. • The Group's Business Continuity Plan was revised and tested during 2015. • Multifactor authentication has been introduced for both internal and external access to the systems. • The Group's IT department has access to cyber threat intelligence and analytics data. • Incident response and remediation policies are in place. • Cyber insurance is being evaluated.	• Independent internal and external penetration tests are regularly conducted to assess the effectiveness of the Group's security. No matters were raised as a result of the 2016 test. • The switchover of the IT system to the Group's backup facility was successfully tested in 2016. • Staff awareness programmes and presentations are delivered to make staff aware of the techniques that may be used to gain unauthorised access to the Group's systems. • Security measures are regularly reviewed by the IT Security Committee. • The Head of IT regularly reports to the Executive Committee. • An independent benchmarking review of the Group's cyber security has been carried out.
8. Regulatory non-compliance The Group's cost base is increased and management time diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. It would impact on the delivery of four of the Group's strategic objectives. An increase in costs would directly impact on the Group's total return KPI. A significant diversion of management time could affect a wider range of key metrics. The Board considers this risk to be unchanged from last year. →	• Each year the Group's Risk Committee receives a report prepared by the Group's lawyers identifying legislative/regulatory changes expected over the next 12 months and reports to the Board concerning regulatory risk. • The Group employs a Head of Health and Safety who reports to the Board. • The Group employs a Head of Sustainability who reports to the Sustainability Committee which is chaired by Paul Williams. • The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. • Members of staff attend external briefings in order to be updated on regulatory changes.	• A Health and Safety report is presented at all Executive Committee and main Board meetings. • The Executive Committee receives regular reports from the Head of Sustainability. • The Group pays considerable attention to sustainability issues and produces an Annual Sustainability Report. • No incidents were reported under the Group's whistleblowing policy in 2016. • The Group has considered the requirements of the Modern Slavery Act and revised its policies where appropriate in order to comply with the legislation. • The Group's Health and Safety processes were reviewed and improved in 2016 and a new external consultant was appointed.

Link to business model

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

Key

- ↑ Risk increase
- → Risk unchanged
- ↓ Risk decrease
- — New risk

Risk, effect and progression	Controls and mitigation	Action
9. Contractor/sub-contractor default Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major sub-contractor defaulting during the project. The risk would affect the Group's delivery of one of its strategic objectives. This would primarily affect the Group's total property return KPI. The risk is considered to have remained at the same level in 2016.	• Whenever possible the Group uses contractors/sub-contractors that it has previously worked with successfully. • The resilience of a project's critical path is improved by establishing procedures to manage any sub-contractor default effectively. • Key construction packages are acquired early in the project. • Performance bonds are sought if considered necessary. • Regular on-site supervision by Derwent London personnel increases the likelihood of identifying any problems at an early stage, thereby enabling remedial action to be taken sooner.	• As the size of the Group's projects has increased so the chosen contractors have become more substantial. • The financial accounts of both main contractors and major sub-contractors are reviewed. • The Group's development managers are regularly on site and conduct unscheduled inspections.
10. Shortage of key staff The Group is unable successfully to implement its strategy due to a failure to recruit and retain key staff with appropriate skills. It would reduce the Group's ability to deliver all of its strategic objectives. This risk could impact on any or all of the Group's KPIs. The risk is seen to be unchanged over the year.	• The Nominations Committee consider succession matters as a standing agenda item. • Requirements for senior management succession are considered as part of the five-year strategic review. • The remuneration packages of all employees are benchmarked regularly. • Six-monthly appraisals identify training requirements which are fulfilled over the next six months.	• The Group recruited 13 new members of staff during 2016. • Staff turnover during 2016 was low at 11%. • The average length of employment is 7.3 years.

Viability statement

In accordance with provision C.2.2 of the 2014 Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision (see page 84) taking account of the Group's current position and the potential impact of its principal risks. The Board conducted this review over a period of five years to 31 December 2021, which was considered appropriate for the following reasons:

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

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

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

The five year strategic review considers the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. The Board subjects these metrics to sensitivity analysis to assess the impact of the principal risks to the Group's ability to deliver its strategic objectives, which are set out on pages 62 to 65, both individually and in unison. However, for the purpose of the viability assessment, the model was stress tested to consider its resilience specifically to those risks that, if they occurred, were likely to have a significant impact on the Group's solvency and liquidity over the five year review period. These risks were identified as those that would affect property values, the availability of finance or the Group's cash flow and a scenario was modelled that assumed a severe decrease in property values combined with significant letting delays at the Group's developments and a decrease in rentals. The assumptions were considered extreme but none of the key metrics were breached with LTV remaining below 50% and net interest cover staying above 280%.

In addition the Board reverse stress tested its business model for a fall in property values and established that, all other assumptions remaining unchanged, it would take a fall in values in excess of 65% to cause the Group to breach its financing covenants.

The Board also reviewed the financing requirements of the Group over the period of the review having regard to the level of unutilised facilities at the year end and the assumptions in the five year review concerning capital recycling.

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

Resource efficiency

6%
reduction in carbon in our like-for-like portfolio

6%
reduction in energy use in our total managed portfolio

5%
increase in our recycling rate from 68% to 73%

Communities

£350,000
awarded to date to projects from our Community Fund

Sustainability

Sustainability continues to form an **important part of our business model** and we have made strong progress, in what has been another busy and successful year.

John Davies
Head of Sustainability

Paul Williams
Executive Director for Sustainability

The progress made in 2016 is reflected in our community fund, which continues to develop and support numerous projects and initiatives across our Fitzrovia and Tech Belt portfolios. During 2016, the fund supported 20 organisations (seven in Fitzrovia and 13 in the Tech Belt) with over £110,000 invested across a diverse range of grass-roots community projects.

Following feedback from our stakeholders, we introduced our first supply chain standard, which is designed to clearly set out our expectations of suppliers across a series of sustainability and governance issues. These issues range from employment/labour standards to payment practices and health and safety. The standard was distributed to all the major suppliers in our property management and development supply chains and they were formally required to acknowledge and adhere to it. Moreover, it has been included as a standard feature in our contractual agreements with suppliers. Going forward we will be monitoring compliance against the standard to ensure it is being implemented robustly. A copy of the standard can be found at www.derwentlondon.com/sustainability/approach.

2016 also saw a significant step forward in international climate change legislation, with 195 countries, including the UK, signing the legally binding Paris Agreement on climate change. The agreement aims to keep global temperature increases well below 2ºC and cut carbon emissions to virtually zero by 2050. In signing this agreement, the UK Government sent a clear signal not only of its commitment to carbon reduction, but also to businesses that they must reduce their carbon footprints and ensure they are resilient to the effects of climate change.

Awards and Recognition

GRESB (Global Real Estate Sustainability Benchmark) 2016
- 5 star rating (Green Star status) retained for the fifth year in succession

CDP 2016
- Management B rating

EPRA Sustainability Reporting Awards 2016
- Gold Award for our 2015 Annual Sustainability Report

Corporate Knights 2017 Global 100 most sustainable companies
- 12th in the Global 100 list and top ranking UK company

To support this commitment and ensure we minimise our risk exposure to the effects of climate change, we have developed a comprehensive management strategy underpinned by a clear and challenging science based emissions target. Further details of this strategy and target can be found in our Annual Sustainability Report at www.derwentlondon.com/sustainability.

Yet again, our work has been recognised externally with the receipt, for a fifth consecutive year, of a five star rating (Green Star) in the Global Real Estate Sustainability Benchmark (GRESB). We also received a new and improved rating in the CDP index, achieving a 'Management B' rating. In addition, and for the fourth successive year, our Annual Sustainability Report received a Gold Award in the EPRA Reporting Awards. Finally, we were ranked 12th in Corporate Knights 2017 Global 100 companies, and were the highest placed UK based company – the list announced at the World Economic Forum meeting in Davos each year rates the world's best companies on their sustainability performance as well as their management of resources, finances and employees.

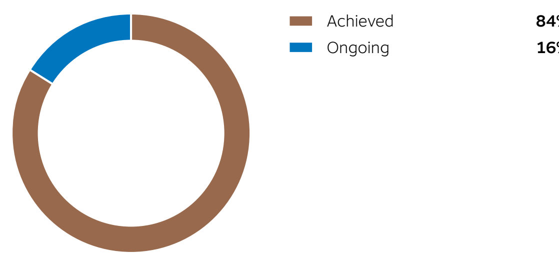
In 2015, we introduced more demanding and longer-term targets designed to challenge us, whilst ensuring we deliver against our strategic sustainability objectives. This continued into 2016, when we set more targets in this way to help us improve our performance. Moreover, we updated and strengthened our internal key performance indicators to ensure we maintain our high standards.

Similar to last year, we have set out a breakdown of our performance – both in terms of our external facing targets and internal key performance indicators – to give a complete picture of our performance.

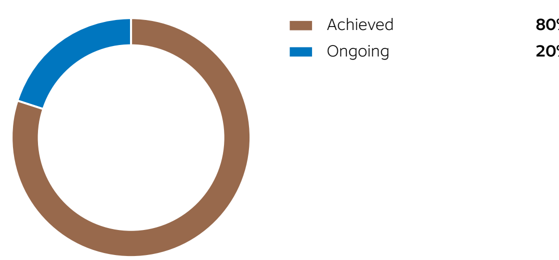
We hope the summary presented here gives you a sense of our progress and achievements during 2016. However, for a more comprehensive review of our sustainability work and performance, please refer to our Annual Sustainability Report at www.derwentlondon.com/sustainability.

Our performance

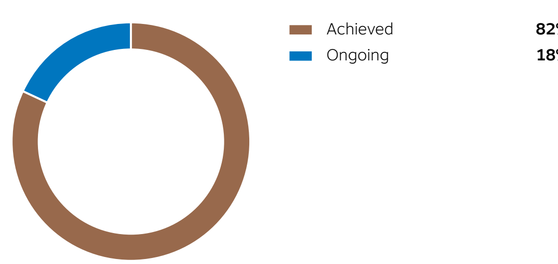
We achieved 84% of our 2016 targets compared with 81% in 2015, a modest increase, with no targets missed.



We achieved 80% of our internal KPIs.



Combined we achieved 82% of our performance measures – a clear indication of the commitment and hard work of our teams.



116	£65,000	234	89%	59%/41%
employees	training spend	volunteering hours	Retention rate	Overall male/ female ratio

Our people

Attracting, supporting, developing and **retaining** talented employees is fundamental to the Group achieving its strategic objectives.

Katy Levine (right)
Head of Human Resources

Carole Freeman (left)
Payroll/Human Resources Manager

Our culture

Derwent London's strong and healthy culture both safeguards and generates long-term value when underpinned by effective governance. Our culture is maintained and communicated through a variety of activities, including our recruitment and induction processes, training initiatives, leadership development, performance management and succession planning. Derwent London's culture is described by its employees as 'professional', 'progressive' and 'passionate'. These, together with integrity, a consultative leadership style and commerciality, are key to the Group's performance, define what we stand for and how we behave with our stakeholders. It is important to us that every employee feels valued and respected and able to develop and thrive in our challenging, fast-paced environment.

We believe that adopting strong ethical values and communicating them reinforces standards of behaviour amongst employees and stakeholders, allows us to continue to foster a positive culture and builds a sense of trust. We consider it our duty to have procedures in place to identify and remedy any malpractice, either within the Group or elsewhere, that affects us. We also expect all employees to maintain high standards of behaviour, as set out in our Employee Handbook and policies. We encourage our staff to report any wrongdoing that falls short of those standards. Our Whistleblowing Policy enables them to do this and ensures their concerns are investigated and appropriate action is taken. To date, no calls (internally or externally) have been made to the helpline reporting any unethical behaviour.

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

Our structure

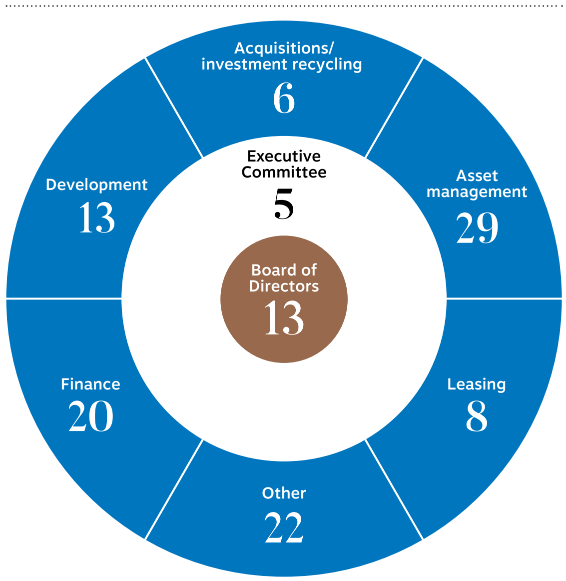
Our business is structured to deliver our strategic objectives with departments in the disciplines of Asset management, Development, Finance, Leasing and Acquisitions/investment recycling, with support provided by a number of other specialist functions. Cross-functional teams that draw on expertise from across the business work on specific projects (see The White Chapel Building case study on page 71), which we believe increases creativity, flexibility, innovation and collaboration.

Our Executive Committee usually meets monthly and comprises the six executive Directors and five senior managers. With all the main departments represented, the Committee ensures accountability across the business and that changes in the Group's strategic focus are communicated and implemented. Decisions can be taken on all but the most important issues, which are reserved for the Board. The Committee can meet on an ad hoc basis and this, together with the close proximity within which we work and the way we manage our projects, as described above, enables us to handle complex transactions and make quick decisions, with the overall aim of creating value and driving income growth across our portfolio.

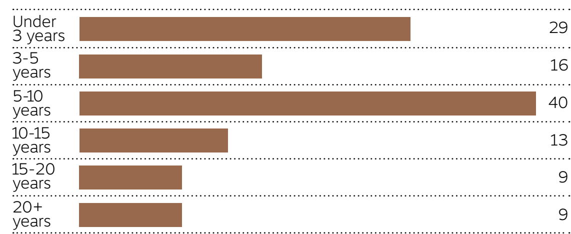
We look to fill any management positions by internal promotions wherever possible. This strengthens our leadership pipeline and helps us retain our top talent. The fact that 27% of employees have more than ten years' service is testament to our high staff retention and ensures that we have excellent knowledge and continuity. This is balanced by the growth in the business which has seen 39% of our employees recruited in the past five years, bringing with them new ideas, competencies and experience.

In 2017 we will be reviewing how we can better work together and develop our people and culture to ensure that as a business we are 'Fit for the Future' and continue successfully to deliver our strategy.

Organisation (number)



Length of service (number)



Equal opportunities and diversity

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

Consequently we have had no discrimination claims to date and have a relatively balanced workforce of 59% male and 41% female, while within our senior management team 37% are female. In addition, 78% of our employees classify themselves as white and 22% as non-white.

Should an employee develop a long-term health concern or disability, we work closely with our Company doctor to understand the condition and, wherever possible, the adjustments that need to be made to ensure a smooth return.

We are also committed to diversity at Board level. Last year we appointed two new non-executive Directors, Cilla Snowball and Claudia Arney, who bring a wealth of experience to the Board and have been involved in mentoring other women throughout the Company.

During 2016, we updated our website to highlight our approach to equal opportunities and diversity.

Employee engagement

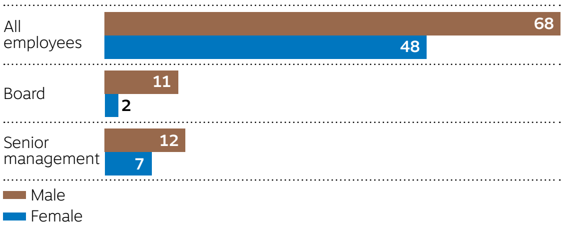
Our retention rate of 89% (2015: 90%) and the results of our first employee survey conducted in 2015, as described in last year's report, reveal a highly committed, loyal and engaged workforce. The improvement most recommended through the survey related to the office facilities and the Board believe this will be delivered through the current office refurbishment due to complete in H1 2017. The new offices will further enhance collaboration between departments and provide a better working environment that promotes productivity and well-being.

A steering group was set up in 2016 to address the lower scoring areas in the employee survey. Recommendations were subsequently presented to the Executive Committee covering areas such as agile working, how to keep roles challenging and better communication of short and medium term strategy to the staff. The intention is to implement these steps in 2017 and the employee survey will be repeated towards the end of this year to measure the impact of our initiatives and the new office environment.

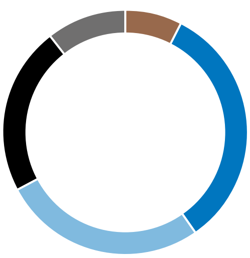
Our people

continued

Gender diversity (number)

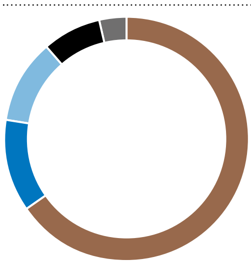


Employees by age



	Number
20-29	9
30-39	38
40-49	31
50-59	26
60+	12

Ethnic origin split



	Number
White British	76
White other	14
Asian	13
Black	9
Other	4

Training and development

We recognise the importance of career development and progression for our employees and how these can support our succession plans which are fundamental to the future growth and stability of the business. We hold six-monthly reviews, provide 360-degree feedback and encourage regular discussions with line managers to highlight any training requirements, future objectives, career aspirations or challenges.

We invested £65,000 in staff training, professional qualifications and one-to-one coaching in 2016. This included a training session entitled ‘Shaping Futures’, which demonstrated to managers how they could help their team take ownership of their own career development within the Group’s organisational structure. All employees attended a ‘Give Me Strength’ training session, aimed at helping them identify their strengths and how to use these skills effectively within their roles. In addition, experienced executive coaches, who understand our culture, have offered support and guidance specifically aimed at developing softer skills.

In addition, there were a number of internal initiatives aimed at sharing knowledge across the business. For example, there were induction programmes for our 13 new joiners, two Building Manager and front-of-house conferences, IT sessions, tax updates and monthly internal presentations covering topics such as progress on development projects and the leasing and marketing strategies for our buildings.

Community and volunteering

During the year we continued to support charitable organisations and our local communities, both financially and through the provision of our people's time and expertise. Examples include a mentoring programme and our internal volunteering programme, through which our employees spent a total of 234 hours volunteering across a range of projects. In partnership with the London Borough of Islington, 18 employees took part in a careers' workshop at a local school and we recruited our third apprentice, Nathan Joseph, as a trainee building manager. Please refer to our 2016 Annual Sustainability Report to read our interview with Nathan and for more information on our community initiatives.

Reward and recognition

To achieve our strategic objectives we need to attract, nurture, develop and retain talented employees. Our approach is to reward people based on individual performance and their contribution to the success of the Group. Annual salary increases and bonuses are linked to an overall performance rating which is allocated through our appraisal process. In order to continue to be seen as an employer of choice and maintain a high level of employee retention, we aim to provide market competitive remuneration and a comprehensive benefits package.

The White Chapel Building project team

The acquisition and subsequent refurbishment and letting of The White Chapel Building was accomplished by a project team that drew on expertise from across the business.

In order to appraise the building pre-purchase, the project team originally consisted of representatives from Investment, Leasing, Development, and Valuation to ensure accurate assumptions were made in respect of income, capital expenditure, yield and value. This, alongside input on funding and tax from our Finance team, enabled us to assess whether the required returns could be achieved.

Once purchased, staff from the Development, Leasing and Marketing teams worked together to deliver the right product for the market. With the letting campaign underway, the Asset management team (including Property and Facilities management) ensured that all contractual obligations agreed with new tenants were delivered.

With the building 75% pre-let at practical completion, the project team ensured a smooth handover to the five tenants and coordinated their fit-outs. As happens on all schemes, once the tenants were in situ there was a comprehensive handover from Development and Leasing to the Asset managers.

The White Chapel Building project team will not be disbanded once the building is let; it will deliver maintenance and management of the asset, value enhancement through proactive asset management, re-letting of future voids and, potentially, a future disposal. This fully joined-up approach means that each asset in the portfolio is always working, with opportunities being closely monitored and value added throughout its life-cycle.


WHITECHAPEL
10
10

THE WHITE CHAPEL BUILDING E1

This substantial eight-storey office building was acquired in December 2015 and sits on a one acre site on the eastern edge of the Tech Belt. Phase 1 has undergone a light-touch refurbishment and comprises 185,000 sq ft of offices which are 78% let. We have created a new entrance and improved the atrium to provide a vibrant communal space featuring workstations, lounge area and a new café. Planning has been granted on Phase 2 which will provide an additional 85,000 sq ft on the lower ground floors.

2 Governance

Board of Directors

1. Robert A. Rayne, 68
Non-executive Chairman
Appointed to the Board: 2007

Skills and expertise: The Hon R.A. Rayne was Chief Executive Officer of London Merchant Securities plc and has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc.

Other current appointments: Non-executive Director of LMS Capital plc and Chairman of Weatherford International Inc.

2. John D. Burns, 72
Chief Executive Officer
Appointed to the Board: 1984

Skills and expertise: A chartered surveyor and founder of Derwent Valley Holdings in 1984, John has overall responsibility for Group strategy, business development and day-to-day operations.

Other current appointments: Member of the strategic board of the New West End Company Limited.

Committees: Risk.

3. Damian M.A. Wisniewski, 55
Finance Director
Appointed to the Board: 2010

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

Other current appointments: Trustee and member of the governing body at the Royal Academy of Music and non-executive Director at the Associated Board of the Royal Schools of Music.

Committees: Risk.

4. Simon P. Silver, 66
Executive Director
Appointed to the Board: 1986

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

5. Paul M. Williams, 56
Executive Director
Appointed to the Board: 1998

Skills and expertise: Paul is a chartered surveyor who joined the Group in 1987. His responsibilities include portfolio asset management, major leasing transactions, supervision of refurbishment and development projects and sustainability.

Other current appointments: Chairman of The Paddington Partnership and Director of Sadler's Wells Foundation.

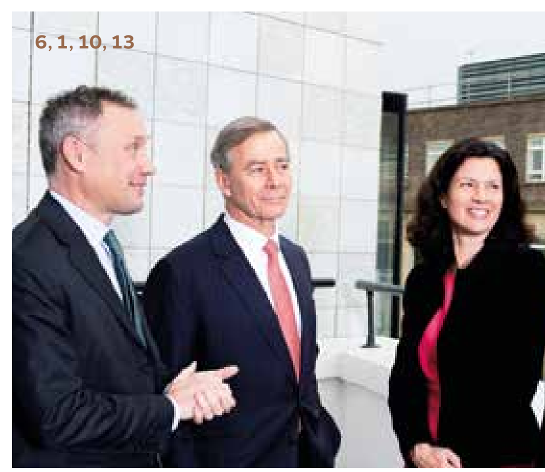
6. Nigel Q. George, 53
Executive Director
Appointed to the Board: 1998

Skills and expertise: Nigel is a chartered surveyor who joined the Group in 1988. His responsibilities include acquisitions and disposals and investment analysis.

Other current appointments: Director of the Chancery Lane Association.

7. David G. Silverman, 47
Executive Director
Appointed to the Board: 2008

Skills and expertise: David is a chartered surveyor who joined the Group in 2002. His responsibilities include overseeing the Group's investment acquisitions and disposals. David is a past Chairman of the Westminster Property Association.



8. Stuart A. Corbyn, 72
Non-executive Director
Appointed to the Board: 2006

Skills and expertise: Stuart is a chartered surveyor. Until 2008, he was Chief Executive of Cadogan Estates, one of the principal private estates in London, and is a past president of the British Property Federation and former chairman of Pollen Estate Trustee Company.

Other current appointments: Non-executive Chairman of Get Living London.

9. Richard D.C. Dakin, 53
Non-executive Director
Appointed to the Board: 2013

Skills and expertise: Richard has been Managing Director of Capital Advisors Limited, part of CBRE, since 2014. Previously, he had been employed at Lloyds Bank since 1982 where he undertook a variety of roles including commercial and corporate banking and leveraged finance, gaining extensive knowledge of property finance and the real estate sector. He is a Fellow of the Royal Institution of Chartered Surveyors and an Associate Member of Corporate Treasurers.

Committees: Risk (chairman), Audit, Nominations.

10. Claudia I. Arney, 46
Non-executive Director
Appointed to the Board: 2015

Skills and expertise: Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.

Other current appointments: Chair of the Remuneration Committee of Halfords PLC, Chair of the Governance Committee of Aviva PLC. Non-executive Director of the Premier League.

Committees: Remuneration (chairman), Audit.

11. Cilla D. Snowball, 58
Non-executive Director
Appointed to the Board: 2015

Skills and expertise: Cilla is Group Chairman and Group CEO at AMV BBDO and a past Chairman of the Advertising Association.

Other current appointments: Director of BBDO Worldwide and Chairman of the Women's Business Council.

Committees: Nominations, Risk.

12. Simon W.D. Fraser, 53
Senior Independent Director
Appointed to the Board: 2012

Skills and expertise: Simon started his career in the City in 1986 and, from 1997 to his retirement in 2011, worked at Bank of America Merrill Lynch where from 2004 he was Managing Director and co-head of corporate broking. Here he led a variety of transactions including equity raisings and advised company boards on a range of issues.

Other current appointments: Non-executive Director of Lancashire Holdings Limited and of Legal and General Investment Management Holdings. He is also a non-executive Director of Cathedral Underwriting Limited, a subsidiary of Lancashire Holdings.

Committees: Nominations (chairman), Audit, Remuneration.

13. Stephen G. Young, 61
Non-executive Director
Appointed to the Board: 2010

Skills and expertise: Stephen is a chartered management accountant and Chief Executive of Meggitt PLC. Previously he has held a number of senior financial positions including Group Finance Director at Meggitt PLC, Thistle Hotels plc and the Automobile Association.

Committees: Audit (chairman), Risk, Remuneration.

12, 2, 11

5, 9, 7

Senior management

Executive Committee

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

1. Rick Meakin
Group Financial Controller

2. Celine Thompson
Head of Leasing

3. Richard Baldwin
Head of Development

4. Ben Ridgwell
Head of Asset and Property Management

5. Tim Kite
Company Secretary


1, 2, 3, 4, 5

Other senior managers

6. John Davies
Head of Sustainability

7. Quentin Freeman
Head of Investor and Corporate Communications

8. Jennifer Whybrow
Head of Financial Planning and Analysis

9. Katy Levine
Head of Human Resources

10. David Westgate
Head of Tax

11. Mark Murray
Head of Information Technology


6, 7, 8


9, 10, 11

Corporate governance

Robert A. Rayne
Chairman

Key areas of activity in 2016

- Reviewed the new requirements introduced by the latest update to the UK Corporate Governance Code to ensure that the Group's procedures had been adapted sufficiently to ensure continued compliance.
- Monitored the ongoing consultations and discussions regarding board diversity and their broadening terms of reference. The potential impact on the Group's board refreshment programme and succession planning was noted.
- Considered the requirements of both the new Market Abuse Regulations and the Modern Slavery Act 2015 and introduced procedures to ensure compliance.
- Reviewed the results of the Board Appraisal exercise and identified changes that would improve the performance of the Board.
- Ensured that the Group's risk management process remained effective given the changing risks facing the Group.

Dear Shareholder,

On behalf of the Board, I am pleased to introduce the Group's Corporate Governance report for 2016.

The latest update of the UK Corporate Governance Code ('The Code') was published in April 2016 and is effective for accounting periods starting after July 2016. Accordingly, Derwent London was subject to the 2014 version of the Code for the whole of 2016 and I am pleased to report that it has, once again, complied in full with the provisions of The Code. The Company's position regarding the independence of Stuart Corbyn is discussed on page 81.

Whilst 2016 was, as anticipated last year, a relatively quiet year for legislative or regulatory changes, a number of initiatives were commenced that could lead to substantial changes to the governance framework over the next few years. Most of these have their roots in recent high profile corporate misconduct and have the intention of restoring 'responsible capitalism'. The Government is playing an important part in this and its initial inquiry covered a wide range of governance matters including directors' duties, executive pay, board composition and gender balance in executive positions. This led to the publishing of a Green Paper on Corporate Governance Reform in November 2016 which consulted on executive pay and improving stakeholder representation. We wait to see how any changes arising from this consultation are enacted.

At Derwent London we recognise that our 'licence to operate' is a valuable asset that is essential to running a sustainable business and we strive to maintain a corporate infrastructure that deserves the trust of all our stakeholders. This not only requires a system whereby decision making is effective and efficient, but also the right culture to exist throughout the Company. As mentioned in my letter last year, a company's culture is now seen as a fundamental factor in determining a company's behaviour, a development that was evidenced by the publication of the FRC's report 'Corporate Culture and the Role of Boards' in July 2016. Whilst measuring a company's culture is difficult, it was pleasing to note that in the most recent staff survey, words chosen to describe the culture at Derwent London were very much aligned with the tone that we, as the Board, promote.

Another matter that continues to be the subject of regular reviews is board diversity. Following on from the Davies' review, the Hampton-Alexander Review has established a new target of 33% for women representation on Boards by 2020. At the same time the Parker Review considered the wider aspects of boardroom diversity. The benefits of a diversified board are well documented and maintaining a properly balanced board is a cornerstone of effective governance. In this regard, we were pleased to welcome Claudia Arney and Cilla Snowball as the latest additions to the Board. However, to preserve this critical balance, ensuring that the Board has the correct mix of skills, experience and knowledge must be given at least as much weight when recruiting new directors as meeting prescribed levels of the various forms of diversity. This subject is discussed further in 'Our people' on page 68 and on page 82.

Corporate governance

continued

New legislation

During the year we completed the process to ensure that we comply with the Modern Slavery Act and our policy statement can be found on our website by following the link from the homepage. We have also revised our procedures regarding inside information and directors' share dealings to reflect the new requirements introduced by the Market Abuse Regulations. These changes included establishing a new committee of the Board, a Disclosure Committee, to assist the Company in identifying inside information and maintaining the insider list.

Future developments

The Financial Conduct Authority ('FCA') has stated that they do not intend to amend the Code before 2019 unless their monitoring of its application indicates that changes are needed. This suggests a period of relative calm but, as mentioned above, new regulations are likely to arise from one or more of the ongoing reviews. In addition, the new General Data Protection Regulations will come into force in 2018. Therefore, during 2017 we will be studying the content of this new legislation and drawing up the necessary procedures to ensure compliance as well as monitoring the requirements of any new draft rules.

Annual General Meeting

As in previous years, I would encourage you to attend the Company's Annual General Meeting on 19 May 2017 where you will have the opportunity to meet the chairmen of the Board committees and members of senior management.

Robert A. Rayne
Chairman
28 February 2017

Corporate governance in focus

Governance framework

The Group's governance framework is designed primarily to ensure its compliance with the Main Principles and Code Provisions of the UK Corporate Governance Code and in addition to make sure that the Group complies with the requirements of the wider legislative environment in which it operates. The framework also establishes a code of conduct which helps promote the Group's open and transparent culture throughout the business.

Responsible business

Derwent London recognises the wide range of stakeholders to which it has a responsibility. In the current environment in which there is a concerted effort to re-establish 'responsible capitalism', the Group strives to be seen as responsible in order to preserve its licence to operate. However, at a more objective level, our responsibility to other stakeholders can be seen in the Group's Sustainability Report which is released on the Group's website, www.derwentlondon.com, at the same time as this Report and Accounts is published.

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Remuneration

The Group's Directors' Remuneration Policy was approved by shareholders at the 2014 AGM and is therefore due for renewal at the forthcoming AGM in May 2017. With the heightened level of attention being given to this matter under the 'responsible capitalism' initiative, the Remuneration Committee has consulted with the Group's major shareholders to ensure that the revised policy being voted on at the AGM accords with best practice and is acceptable to investors.

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Brexit and London economy

The vote of the UK to leave the EU created a heightened level of uncertainty, particularly for London, which is likely to persist for some time and radically changed the risk profile facing the Group. The Directors considered the effect of this change when conducting their robust assessment of the risks to the delivery of the Group's strategic goals and concluded that the possibility of an unfavourable exit settlement represented a new principal risk to the Group.

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The Board

Directors

The Directors of the Company during the year and their interests in the share capital of the Company, including deferred shares and shares over which options have been granted under the performance share plan, are shown in table 1 below. All of these interests are held beneficially.

There have been no changes in any of the Directors' interests between the year end and 28 February 2017.

During the year, a conditional grant of 179,345 shares was made to Directors under the Performance Share Plan (PSP) whilst 127,242 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 66,518 shares of this award made to Directors lapsed.

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

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

Role and responsibilities

The Board of Derwent London is responsible for:

- Setting the Group's strategy for delivering long term value to shareholders and other stakeholders and ensuring that adequate resources are available to meet its objectives.
- Providing effective challenge to management concerning the execution of the strategy.
- Monitoring management performance in delivering the strategy.
- Risk management including setting the Group's risk appetite.
- Ensuring that an appropriate culture is agreed and conveyed throughout the Company.

A formal list of matters reserved for the Board is maintained which includes decisions relating to strategy, management and capital structure, internal control and corporate governance, major contracts, certain external communications and Board membership. The list is reviewed periodically.

The Board either discharges its responsibilities directly or through delegation to management or one of the Board committees.

Table 1: Directors' interests in the Company's share capital

	Ordinary shares of 5p each		Options and deferred shares	
	31 Dec 16	31 Dec 15	**31 Dec 16**	31 Dec 15
R.A. Rayne[1] (Chairman)	**4,174,703**	4,194,703	**–**	–
J.D. Burns (Chief Executive Officer)	**653,847**	694,498	**126,373**	139,545
S.P. Silver	**213,617**	239,887	**108,427**	119,717
N.Q. George	**49,352**	47,550	**80,490**	82,855
P.M. Williams	**48,594**	44,551	**80,490**	83,286
D.G. Silverman	**22,499**	16,469	**80,490**	81,733
D.M.A. Wisniewski	**28,067**	21,781	**80,490**	83,286
S.A. Corbyn	**1,000**	1,000	**–**	–
R.D.C. Dakin	**–**	–	**–**	–
S.W.D. Fraser (Senior Independent Director)	**2,000**	–	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
C.I. Arney (appointed May 2015)	**2,500**	–	**–**	–
P.D. Snowball (appointed Sept 2015)	**–**	–	**–**	–

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

Corporate governance

continued

Role and responsibilities

Chairman

As Chairman, Robbie Rayne's principal responsibility is the effective running of the Board. This involves setting its agenda, ensuring that the Board as a whole plays a full and constructive part in the development of the Group's strategy and making sure that the Board's decision making process is operated correctly.

Other key responsibilities include:

- With the Nominations Committee, ensuring that the Board is and remains appropriately balanced to deliver the Group's strategic objectives and to meet the requirements of good corporate governance.
- Monitoring the composition of the board committees to ensure that they have the appropriate skills and experience to effectively discharge their duties.
- Ensuring that there is effective communication with the Group's shareholders.

Chief Executive

John Burns is the Group's Chief Executive Officer and he is primarily responsible for running the Group's strategy and overall commercial objectives together with implementing the decisions of the Board and its committees. This includes the following responsibilities:

- To develop the Group's strategy in response to changes in the market or economic conditions.
- To keep the Chairman appraised of important and strategic issues facing the Group.
- To ensure that the Group's business is conducted with the highest standards of integrity in keeping with its culture.

Senior Independent Director (SID)

Simon Fraser took over as the Group's SID at the beginning of 2016. The role has two key functions: to provide a sounding board for the Chairman in matters of governance or the performance of the Board, and to be available to shareholders if they have concerns which have not been resolved through the normal channels of communication with the Company. Other functions of the SID include:

- To at least annually lead a meeting of the non-executive Directors without the Chairman present to appraise the performance of the Chairman.
- To act as an intermediary for non-executive Directors when necessary.
- To act as an independent point of contact in the Group's Whistleblowing procedure.

The Board and Executive Committee

The full Board met eight times during 2016 and six meetings are scheduled for 2017. One meeting every year is arranged specifically to consider the Group's five year strategy. Extra meetings are arranged if necessary for the Board to properly discharge its duties.

The Executive Committee, which consists of the executive Directors plus five of the Group's senior managers, met eleven times during the year. Both bodies are provided with comprehensive papers in a timely manner to ensure that the members are fully briefed on the matters to be discussed at the meeting.

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

	Full Board	Executive Committee
Number of meetings	8	11
Executive		
John Burns	8	11
Simon Silver	8	10
Damian Wisniewski	8	11
Paul Williams	8	11
Nigel George	7	11
David Silverman	8	11
Non-executive		
Robert Rayne	8	–
Stuart Corbyn	8	–
Richard Dakin	8	–
Simon Fraser	8	–
Stephen Young	7	–
Claudia Arney	8	–
Cilla Snowball	8	–

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

Board Committees

In addition to the Executive Committee the Board maintains four Board Committees. The terms of reference of each Committee are available on the Group's website www.derwentlondon.com. Set out below are details of the membership and duties of the Committees.

Remuneration Committee

Membership and attendance:

Claudia Arney	Chairman	●	○	○	●	●
Stuart Corbyn		●	●	●	●	●
Simon Fraser		●	●	●	●	●
Stephen Young		●	○	○	●	●

The Committee is responsible for establishing the Group's remuneration policy and individual remuneration packages for the executive Directors and selected senior executives. There were five meetings of the Committee in 2016 and the report of its activities is set out on pages 85 to 103.

Nominations Committee
Membership and attendance:

Simon Fraser	Chairman	●	●
Stuart Corbyn		●	●
Richard Dakin		●	●
Cilla Snowball		●	●

The Committee's primary responsibility is identifying external candidates for appointment as Directors and, subsequently, recommending their appointment to the Board. In addition if requested, the Committee will make a recommendation concerning an appointment to the Board from within the Group. The Committee met twice during 2016 and the report of the Nominations Committee is on page 104.

Risk Committee
Membership and attendance:

Richard Dakin	Chairman	●	●	●
Stephen Young		●	●	●
Cilla Snowball		●	●	●
John Burns		●	●	●
Damian Wisniewski		●	●	●

The Committee's main responsibility is to review the effectiveness of the Group's internal control and risk management systems. It met three times during the year and the Committee's report is on page 105.

Audit Committee
Membership and attendance:

Stephen Young	Chairman	●	●	●	●
Stuart Corbyn		●	●	●	●
Richard Dakin		●	●	●	●
Simon Fraser		●	●	●	●
Claudia Arney		●	●	●	○

The Committee is responsible for reviewing, and reporting to the Board on, the Group's financial reporting and for maintaining an appropriate relationship with the Group's Auditor. The Committee met four times during 2016 and the report of the Audit Committee is on pages 107 and 108.

● – attended
○ – not attended

Performance evaluation

The annual review of the effectiveness of the Board and its Committees, as required by provision B.6.2. of the Code, was undertaken at the start of 2016 by way of a confidential, online survey completed by all the Directors and the Company Secretary. This was facilitated by Lintstock, an independent third party which carries out no other work for the Company. The responses were consolidated by Lintstock which then prepared reports for the Chairman of each of the Board Committees and the Chairman of the Board.

In view of the new appointments made during 2015, the quality of the Group's induction process was focussed on and the replies received were generally favourable. Overall, the responses identified no particular areas of weakness although some matters were raised where it was felt that improvements could be made. One of these was the extent of the non-executive Directors' input to the Group's strategy. To enhance this aspect of the Board's performance, an off-site strategy day was arranged during 2016. Another matter commented on was the size of the Board. Although mentioned by a number of respondents, none suggested that the Board's performance was compromised by its size and this is a subject regularly considered by the Nominations Committee.

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

Having used the online survey as the basis of the effectiveness review for a number of years, the Board decided to supplement this year's process by the introduction of confidential interviews, conducted by Lintstock. Given the increased importance being attached to a Group's culture, Lintstock was asked to ensure that this subject received appropriate attention in the course of the interviews.

The main areas for development that were identified in this year's appraisal process were succession, strategy and market changes. Ways to improve the Board's performance in these areas are being explored and will be reported on in next year's report and accounts.

Having considered the results of the review, and taken account of matters discussed in his one-to-one meetings with the Directors, the Chairman is satisfied that the non-executive Directors continue to be effective and show a high level of commitment in discharging their responsibilities. In reaching this conclusion, the Chairman paid particular attention to those Directors that had served on the Board for more than six years. All the non-executive Directors are standing for re-election at the Annual General Meeting.

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

The performance of the executive Directors was assessed by the Remuneration Committee as part of the salary review process.

Independence

The position regarding Stuart Corbyn's independence is referred to in the Chairman's letter on Corporate Governance. Under the criteria set out in provision B.1.1. of the Code, Stuart is not deemed independent having served on the Board for more than nine years.

Length of service is only one of a number of criteria against which a director's independence can be assessed, but, in view of Stuart's tenure, the Board has specifically considered his independence.

Factors taken into account in the review included:

- That Stuart had no relationships with management that might compromise his independence.
- The manner in which he exercised his judgement.
- The level of commitment to the role demonstrated during the year.

Taken together with the effective challenge that Stuart consistently presented to management, the Board was satisfied that he continued to demonstrate an independent state of mind.

Despite this conclusion, in the interest of good governance, Stuart stepped down as the Group's Senior Independent Director and chairman of the Nominations Committee at the start of the year having served on the Board for more than nine years. It has now been agreed that Stuart should leave all the Committees that he currently serves on with effect from 31 December 2016 and retire from the Board after the Group's Annual General Meeting in May 2017.

Corporate governance

continued

Diversity

The Board notes the continued focus on diversity exhibited by a range of bodies and the wide scope of consultations and reviews published during 2016. These include the Hampton-Alexander Review which aims to build upon the progress resulting from the recommendations made by Lord Davies and The Parker Review which considered the ethnic diversity of UK boards.

The Board's policy in this regard is to make appointments based on merit with the over-riding objective of ensuring that the Board maintains the correct balance of skills, experience, length of service and knowledge of the Group to successfully deliver the Group's strategy whilst keeping in mind the well documented benefits of a diversified Board and avoiding the pitfalls of positive discrimination.

The Board is also conscious that altering the diversity of the Board can only be undertaken in conjunction with the underlying Board refreshment programme. Having recruited two new non-executives in 2015, there have been no further appointments to the Board in 2016, and consequently its diversity is unchanged.

The Board currently includes two women (15%) and the gender mix throughout the Group is illustrated by the adjacent diagram and on page 68.

Succession

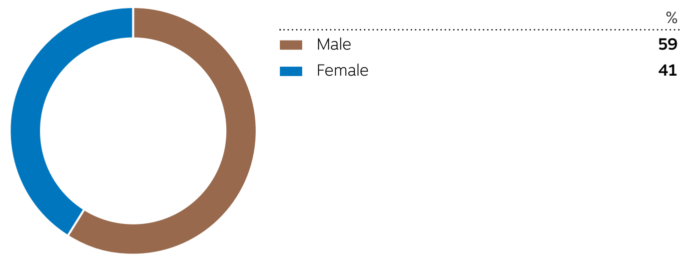
One of the responsibilities of the Nominations Committee is to ensure that the Group would be able to continue with its long term strategy in the event of unforeseen circumstances. As part of this responsibility, the Committee considers the Group's succession planning on a regular basis to ensure that changes to the Board are properly planned and co-ordinated.

The Committee also monitors the development of the executive team below the Board to ensure that there is a diverse supply of senior executives and potential future Board members with the appropriate skills and experience. The Executive Committee also considers the adequacy of the Group's succession plans below the Board as part of the five year strategy review.

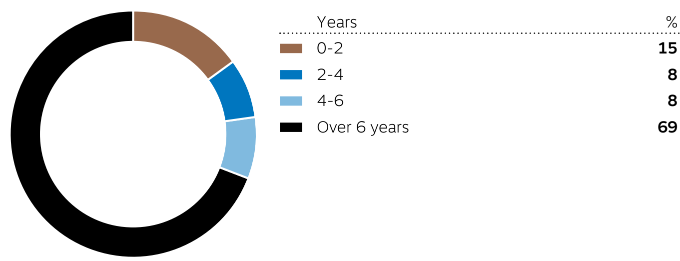
Composition of the Board

Having taken account of all the relevant factors described above, the Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to deliver the Group's strategy, to enable the non-executive Directors to effectively challenge the views of the executive Directors and to satisfy the requirements of good corporate governance.

Diversity of the Group



Length of tenure of Directors



Communication with shareholders

The Company recognises the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive Directors, through presentations and visits to the Group's property assets. The Board receives regular reports of these meetings which include a summary of any significant issues raised by the shareholders.

The Group's website www.derwentlondon.com, which includes the presentations made to analysts and investors at the time of the Group's interim and full year results, together with the social media channels that the Group uses, provide additional sources of information for shareholders. Websites for specific developments are used to help explain the Group's current activities to shareholders in more detail. The Annual Report, which is available to all shareholders, reinforces this communication.

During 2016, the Group held over 320 investor meetings with 167 investors. Of these, 70 were shareholders at the year end and their ownership represented over 60% of the shares in issue. A calendar of our main shareholder events in 2016 can be seen below.

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

January	Property Conference (London)
February	2015 Results presentation Roadshow (United Kingdom)
March	Roadshows (Netherlands and United Kingdom) Salesforce presentations (x3)
April	Property Conference (London) Salesforce presentation
May	2016 Q1 business update conference call Salesforce presentation Property Conference (Amsterdam)
June	Property Conference (London)
July	
August	2016 H1 results presentation Roadshows (Netherlands and United Kingdom) Salesforce presentation
September	Property Conference (London x2 and New York) Roadshow (United Kingdom)
October	
November	2016 Q3 business update conference call Investor conference Property Conference (London x2)
December	

Risk management and internal control

The principal risks and uncertainties facing the Group in 2017 together with the controls and mitigating factors are set out on pages 60 to 65. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of the assessment the Board specifically considered the impact that the UK's decision to leave the EU might have on these risks. In view of the uncertainty created by the vote and the unknown nature of the business environment that the Group will eventually be operating in, the Board concluded that this represented a new principal risk to the business.

Details of the price, credit, liquidity and cash flow risks that are inherent in the Group's business are given in note 23 on pages 150 and 151.

The key elements of the Group's internal control framework which is designed to manage and control the Group's risks are:

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

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

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

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

Corporate governance

continued

Internal audit

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

Report and accounts

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

Going concern

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

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

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least February 2018. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

The Group's Viability Statement, which reflects the Board's conclusion regarding the impact of the principal risks on the Group's solvency and liquidity over the five year period of the review, is set out on page 65.

Report of the Remuneration Committee

Claudia I. Arney
Chair of the Remuneration Committee

Annual statement

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2016, my first report since becoming Chair of the Remuneration Committee in June 2016 and having joined the Board a year earlier.

My appointment coincided with the start of a comprehensive review of executive remuneration in advance of our second binding remuneration policy shareholder vote at the May 2017 AGM. This marks the third anniversary and, therefore, the expiry of our 2014 policy. In summary, the Committee is satisfied that the existing remuneration policy and structure continues to serve the Company well and that there should be no significant changes, including to overall quantum and variable pay opportunities. We are, however, enhancing our share ownership guidelines to provide greater alignment with shareholders and this is in addition to the inclusion of a two-year holding period which was introduced as part of the 2014 policy.

I set out below a summary of the pay outcomes for the 2016 financial year, the objectives and key features of the revised remuneration policy and how it will be implemented in 2017.

Performance and reward in 2016

The Group's results for 2016 are discussed in the Strategic Report and include a total property return of 2.9% and a total return of 1.7%. Both these KPIs are measures of performance used in assessing the level of performance related pay for the Directors. To ensure that remuneration reflects a balanced performance, a scorecard of additional metrics is taken into account by the Committee when considering the strategic element of the Group's annual bonus scheme. Taking all these measures into account resulted in a bonus entitlement of 23.25% of entitlement being earned. Whilst performance against the strategic objectives was strong, the Committee recognised that this was not reflected in the financial or share price performance of the Group which was dominated by the market effects of the Brexit vote. Accordingly, the Committee used its discretion to reduce the strategic element outcome by a quarter.

Conditional awards made in 2014 under the Group's 2014 Performance Share Scheme (PSP) will vest in May 2017. These awards were subject to two performance conditions each over 50% of the award and both measured over the three year period from 1 January 2014 to 31 December 2016. The first element was based on total shareholder return (TSR) performance compared with that of a group of other real estate companies. This measure has been finalised and none of that part of the award will vest. The second part was based on the Group's total property return compared to properties in the IPD Central London Offices Total Return Index. The IPD data will be available in March and therefore the vesting result has been estimated at the year end.

The combined assessment of the two performance measures as at 28 February 2017 was that around 25% of the total award was expected to vest. The final vesting percentage will be ascertained in March 2017 and the award will vest in May 2017.

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

2017 Remuneration policy and implementation

The purpose of the review was to ensure a structure which supports the Company's key remuneration principles. These include:

- Rewarding executives for delivering above average long-term returns to shareholders.
- Enabling the Company to recruit, retain and motivate the best people.
- Promoting long-term sustainable performance whilst ensuring that the structure does not create incentives for management to operate outside the Group's risk appetite.
- Ensuring the metrics used in incentive schemes remain effectively aligned to business strategy.
- Reflecting developments in evolving best practice and corporate governance.
- Taking account of wider stakeholders, including employees when determining executive directors' remuneration.

Report of the Remuneration Committee

continued

As mentioned above, the Committee concluded that the existing policy, which has a significant weighting on performance-related pay, continues to serve the Company well and that there should be no significant changes except to share ownership guidelines which have been increased to 200% of salary for all Directors. The key elements of the 2017 remuneration policy are set out below:

- *Base salary* – increases to be guided by the workforce increase.
- *Annual bonus* – 150% of salary maximum retained. More choice on the metrics that may apply subject to a minimum of 75% weighting on financial objectives. There will be full disclosure of the bonus targets and performance against them in the following year's report.
- *Long-term incentive* – 200% of salary maximum retained. Metrics and weightings may be tailored to reflect the key medium-term strategic aims of the business directly prior to grant, subject to at least one third being relative total shareholder return (TSR).
- *Share ownership guidelines* – a 200% of salary guideline will apply for all executive directors and not just the Chief Executive.

No changes have been made to overall quantum and variable pay opportunities and the two-year post-vesting holding period for the performance share plan will be retained. The new policy will be proposed to shareholders for a binding vote at the 2017 AGM.

Implementation in 2017

John Burns' and Simon Silver's salaries will not be increased for 2017. The other executive Directors' salaries will be increased by 2.5% which is in line with the average 'cost of living' salary increase across the rest of the Group.

The annual bonus and PSP opportunities and metrics remain unchanged with the bonus based on relative total return, total property return relative to the IPD index and strategic measures and the PSP based on relative TSR and total property return relative to the IPD index. While the measures remain the same, the Committee has made adjustments to the comparator calculations to improve transparency and alignment with strategy:

- TPR will be measured against the quarterly IPD index rather than the median property. The index is weighted by property value and therefore, in the Committee's view, provides a better measure of 'market' return than measurement against the median property in the index as has been used up till now. Using the index is also consistent with the Company's KPI and investor presentation disclosures.
- Long-term TSR performance will be assessed against the FTSE 350 Real Estate Index constituents – this is a larger peer group than the previous group of 12 real estate companies and will result in a more robust median to upper quartile comparison, particularly in the event of any delistings during the period.
- Long-term TPR performance will be assessed against the quarterly IPD UK All Property Index rather than the Central London Offices index. The UK All Property Index is consistent with our stated 3-year objective (see page 31).

The Committee reviewed the historic IPD index and Median returns in recent years and found that the index has consistently been higher than the Median. To reflect this, the TPR element of the bonus and PSP will pay out in full if the Company's performance is at least 3% pa higher than the relevant Index. The Committee believes this is a stretching outperformance target in the current market, it is as challenging as the previous TPR target range and it is more challenging than most, if not all, the targets used in our peers' incentive plans.

Shareholder engagement

As part of the policy review, the Committee consulted a number of our largest shareholders in 2016. The Committee was very grateful for the feedback received and, reflecting these comments, some amendments to the original proposals were made.

The Committee will continue to encourage an open and constructive dialogue with shareholders and their representative bodies, and will consult with major shareholders on any material changes to the remuneration policy or to how it is implemented. We are aware that the executive remuneration landscape is evolving and of the potential for change, and will continue to monitor developments as they arise.

There will be two votes on remuneration at the forthcoming AGM, a binding vote on the remuneration policy and an advisory vote on the rest of the report. I hope that you will be able to support these resolutions. If you have any questions or comments then please feel free to contact me through Tim Kite, the Company Secretary.

Claudia I. Arney
Chair of the Remuneration Committee
28 February 2017

Key activities

The principal activities of the Committee during the year were:

Responsibilities

- To determine the remuneration packages for the executive Directors and selected other senior executives.
- To oversee the operation of the Group's annual bonus scheme and performance share plan.
- To consider the level of business risk that the remuneration structure encourages the executives to take.

Key activities in 2016

- Carried out a comprehensive review of executive remuneration in preparation for the Group's second binding vote on remuneration policy at the May 2017 AGM.
- Obtained external verification of the result of the financial elements of the bonus scheme and carried out the assessment of the performance against the strategic targets.
- Obtained external confirmation of the vesting result for the performance share plan and made the 2017 conditional award.
- Set the salaries for 2017.

Short index

This part of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Act). The overall remuneration policy has been developed in compliance with the principles of the UK Corporate Governance Code and the Listing Rules.

The Remuneration Policy Report set out below will be put to a binding shareholder vote at the AGM on 19 May 2017 and, if approved, the Committee intends for it to apply for a period of three financial years, 2017 to 2019. The Annual Statement by the Chairman of the Remuneration Committee and the Annual Report on Directors' Remuneration will be put to a single advisory vote at the 2017 AGM.

Directors' remuneration policy

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

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

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

Differences between the proposed remuneration policy and the previous one

Having conducted a thorough review of remuneration and taken independent advice, the Committee was satisfied that the 2014 shareholder-approved remuneration policy continues to serve the Company well and that there should be no significant changes, including to overall quantum and variable pay opportunities. The key differences between the proposed remuneration policy and the previous policy are:

- Performance metrics – to provide the Committee with greater choice on the performance metrics that apply to the annual bonus and PSP and their relative weightings. This ensures the Committee is able to target those metrics which are closely aligned to the short and medium term objectives of the Company during each year of the policy period. Under the annual bonus plan, at least 75% of the overall opportunity will be based on financial metrics and under the PSP, total shareholder return remains a key measure and will account for at least one-third of the awards made during the life of the policy.
- Share ownership guidelines – the Committee believes strongly in alignment of executives' interests with those of shareholders through long-term share ownership. Therefore, a 200% of salary guideline will continue to apply for the CEO and the guideline for other executive Directors will be increased from 125% to 200% of salary. A two-year holding period on vested PSP awards will continue to apply.

Report of the Remuneration Committee

continued

Executive Director policy table

The policy table below sets out the broad principles which will be applied when setting the individual remuneration packages of Directors. This should be read in conjunction with the recruitment and promotion policy on page 93 and the application of policy for 2017 on pages 94 and 95.

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Normally reviewed annually. Any increase is normally effective from 1 January. Factors taken into account in the review include: • The role, experience and performance of the individual and the Company. • Economic conditions. • Increases throughout the rest of the business. • Levels in companies with similar business characteristics. Salaries are set after having due regard to the salary levels operating in companies of a broadly similar size and complexity, the responsibilities of each individual role, individual performance and an individual's experience.	The current salary levels are detailed in the Annual Report on Remuneration on page 94 and will be eligible for increases during the period that the Directors' remuneration policy operates. During this time, to the extent that salaries are increased, increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases beyond those linked to the workforce generally (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases over the subsequent few years, potentially higher than for the wider workforce, in order to bring the salary to the desired position, subject to individual performance.	A broad assessment of personal and corporate performance is considered as part of the salary review.
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives. Medical benefits to help minimise disruption to business.	Benefits include, but are not limited to, private medical insurance, car and fuel allowance and life assurance. In certain circumstances, the Committee may also approve additional allowances relating to relocation of an executive Director or other expatriate benefits required to perform the role. The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce. The Committee has the ability to reimburse reasonable business related expenses and any tax thereon.	The maximum cost of providing benefits is not pre-determined and may vary from year-to-year based on the overall cost to the Company in securing these benefits for a population of employees (particularly health insurance and death-in-service cover).[1] The Committee has discretion to approve a higher cost in exceptional circumstances (such as relocation), or where factors outside of the Committee's control have changed materially (such as increases in insurance premiums).	None.

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

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Pension	To help recruit and retain high calibre executives and reward continued contribution to the business.	The Company operates a defined contribution pension scheme. Where contributions would exceed either the lifetime or annual contribution limits cash payments in lieu are made.	Directors receive a contribution or cash supplement (or a mix of both) of up to 20% of salary. Legacy arrangements for some Directors mean that a fixed amount is paid in addition to the 20% contribution. The continuation of these arrangements for existing employees means that their maximum pension will be up to 21% of salary.	None.
Annual bonus	To incentivise the annual delivery of stretching financial targets and strategic goals. Financial performance measures reflect KPIs of the business.	Bonus payments are determined by the Committee after the year end, based on performance against the targets set at the start of the year. Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% are deferred into shares of which 50% are released after 12 months and the balance after 24 months. These deferred shares are potentially forfeitable if the executive leaves prior to the share release date. Dividend equivalents accrue on vested deferred shares. The bonus is not pensionable. The cash and deferred elements of bonuses are subject to provisions that enable the Committee to recover the cash paid (clawback) or to lapse the associated deferred shares (withhold payments) in the event of a misstatement of results, error in calculation or for gross misconduct.	Maximum bonus potential, for the achievement of stretching performance conditions is 150% of salary for all Directors.	At least 75% of the annual bonus will be based on financial measures with up to 25% based on strategic objectives. Metrics may include but are not limited to: • total return against other comparable real estate companies; • total property return versus an appropriate IPD index; and • performance objectives tailored to the delivery of the Group's short and medium-term strategy. Up to 22.5% of the relevant bonus element will be payable for threshold performance against the financial measures, with full payout for achieving challenging stretch performance targets. The performance measures will be reviewed annually by the Committee and the Committee retains discretion to vary measures and weightings as appropriate (subject to the minimum financial measures weighting set out above) to ensure they continue to be linked to the delivery of Company strategy. The Committee has discretion to adjust the payment outcome if it is not deemed to reflect appropriately the overall business performance of the Company over the performance period. Any exercise of discretion will be detailed in the following year's annual report on remuneration. Details of the bonus targets will be disclosed retrospectively in the next year's annual report on remuneration when they are no longer deemed commercially sensitive by the Board.

Report of the Remuneration Committee

continued

Executive Director policy table (continued)

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Long-term incentives	To align the long-term interests of the Directors with those of the Group's shareholders. To incentivise value creation over the long-term. To aid retention.	The Committee makes an award of performance shares each year. Vesting is determined by the Group's achievements against stretching performance targets over three years and continued employment. The Group's performance against the targets is independently verified on behalf of the Committee. A further holding period of two years is required on after tax vested shares. Dividend equivalents may accrue on performance shares to the extent that performance conditions have been met, payable at the end of the vesting or, if applicable, the end of the holding period. Clawback and malus provisions apply in the event of misstatement, an error in calculation or as a result of misconduct which results in the individual ceasing to be a director or employee of the Group within two years of vesting. Awards will be satisfied by either newly issued shares or shares purchased in the market. Any use of newly issued shares will be limited to corporate governance compliant dilution limits contained in the scheme rules.	Annual award limit: up to 200% of salary in any financial year.	Long-term incentive awards vest based on three-year performance against a challenging range of performance targets, with at least one third of an award based on total shareholder return (TSR). Other metrics may include, but are not limited to, total property return relative to an appropriate IPD (or equivalent) index, total return and NAV or earnings growth. Up to 22.5% of each part of an award vests for achieving the threshold performance level with full vesting for achieving challenging stretch performance targets. No awards vest for below threshold performance levels. The performance criteria will be reviewed annually by the Committee prior to each grant and the Committee has discretion to vary measures and weightings as appropriate to ensure they continue to be linked to the delivery of Company strategy subject to the minimum weighting on TSR as set out above. The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure that vesting outcomes are a true reflection of the overall performance of the Company over the performance period. Any use of discretion will be fully explained in the next year's remuneration report.
Share ownership guidelines	To provide alignment between executives and shareholders.	Executive Directors are required to retain at least half of any deferred bonus share awards or performance shares vesting (net of tax) until the guideline is met. Only wholly owned shares will count towards the guideline.	All executive Directors – 200% of salary. Non-executive Directors – no guideline.	None.
Non-executive Directors' fees	To help recruit and retain high calibre non-executives with relevant skills and experience. Reflects time commitments and scope of responsibility.	The remuneration for the Chairman is set by the full Board (excluding the Chairman). The remuneration for non-executive Directors is set by the executive Directors. The Chairman receives benefits limited to a company car (and driver), secretarial provision and office costs. Periodic fee reviews will set a base fee and, where relevant, fees for additional services such as serving on a Board Committee, chairing a Board Committee or holding the position of Senior Independent Director. The review will consider the expected time commitments and scope of responsibilities for each role as well as market levels in companies of comparable size and complexity.	The current non-executives' fees (and benefits where applicable) may be increased at higher rates than the wider workforce given that fees may only be reviewed periodically and to ensure that any changes in time commitment are appropriately recognised in the fee levels set.	None.

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

- Participants of the plans.
- The timing of grant of award and/or payment.
- The size of an award and/or a payment (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table on pages 88 to 90).
- The determination of vesting.
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group.
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen.
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends).
- The annual review of performance conditions for the annual bonus plan and Performance Share Plan from year-to-year.

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

The outstanding share incentive awards which are detailed in tables 2 and 3 on pages 99 and 101 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in previous reports of the Remuneration Committee will remain eligible to vest or become payable on their original terms.

Choice of performance measures and approach to target setting for 2017
The performance metrics that are used for annual bonus and long-term incentive plans are aligned to the Company's KPIs.

For the 2017 annual bonus, a combination of sector specific financial performance measures are used, namely total return and total property return. Total return and total property return are measured on a relative basis against sector peers and industry benchmarks such as IPD. The precise measures, targets and weightings chosen may vary each year, depending on the Company's strategy. Strategic objectives are set on an annual basis, directly linked to the overall strategic focus at that time.

Long-term performance targets for 2017 are based on a combination of relative performance measures. Total Shareholder Return will be used as it provides a clear alignment between shareholders and executives and total property return (TPR) will be used as it promotes the aim to maximise returns from the investment portfolio. TSR will be measured against the constituents of the FTSE 350 Real Estate Index as this provides a robust and relevant benchmark. TPR will be measured against the IPD UK All Property Index as this is in line with the Group's KPI of exceeding the IPD UK All Property index on a three-year rolling basis.

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

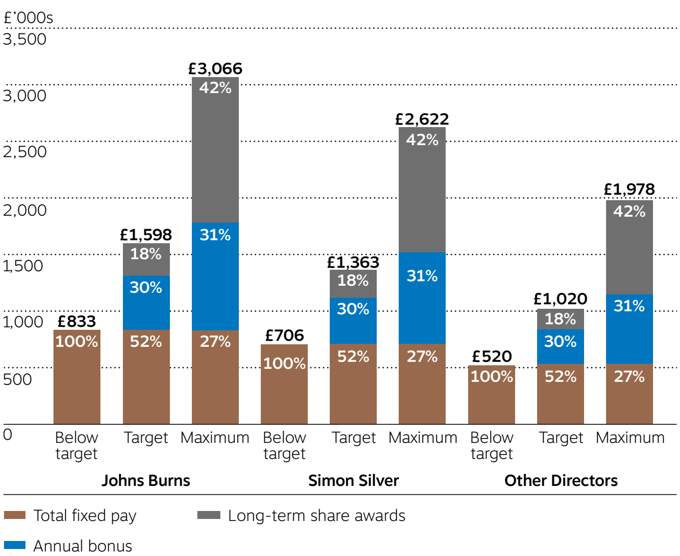
The overall remuneration policy for executive Directors is broadly consistent with the remainder of the workforce. However, whilst executive remuneration is weighted towards performance-related pay, the Company operates both option and bonus schemes for employees (albeit at lower quantum and subject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

How the views of shareholders are taken into account
The Committee actively seeks dialogue with shareholders and values their input. A comprehensive shareholder consultation was undertaken in formulating the Company's revised remuneration policy. The Committee considered carefully the feedback received from major shareholders and proxy voting agencies and made changes to the policy and its implementation, as appropriate. On an ongoing basis, any feedback received from shareholders is considered as part of the Committee's annual review of remuneration. The Committee will also discuss voting outcomes at the relevant Committee meeting and will consult with shareholders when making any significant changes to the remuneration policy or the way it is being implemented.

Report of the Remuneration Committee

continued

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



Assumptions:
Below target = fixed pay only (base salary, benefits and pension).
On-target = 50% of annual bonus payable and 22.5% vesting of the LTIP awards.
Maximum = 100% of annual bonus payable and full vesting of LTIP awards.
Salary based on those applying on 1 January 2017.
Benefits value is based on the cost of supplying those benefits (using the annualised value of benefits in 31 December 2016 as a proxy).
Pension value set at 20% of the salary.
Amounts have been rounded to the nearest £1,000.
Share price growth on vesting and any dividends payable on vesting shares have been ignored.
Other Directors are: Damian Wisniewski, Paul Williams, Nigel George and David Silverman, whose salary, annual bonus and LTIP arrangements for 2017 are identical.

Service contracts and compensation for loss of office
As part of the major review of the Directors' remuneration structure undertaken in 2013/2014, all the executive Directors entered into new service contracts dated 16 May 2014. Executive Directors' service contracts are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice. Contracts include a payment in lieu of notice clause which provides for monthly phased payments throughout the notice period which include pro-rated salary, benefits and pension only and are subject to mitigation. In addition, the Company may also make payments in relation to any statutory claim against the Company or make a modest provision in respect of legal costs or outplacement fees. The new service contracts have no change of control provisions and all other elements were brought up to date in line with best practice.

With regard to annual bonus for a departing executive Director, if employment ends by reason of death, retirement, injury, ill-health, disability, redundancy or transfer of employment outside the Group, or any other reason as determined by the Committee (i.e. the individual is a 'good leaver'), the executive Director may be considered for a bonus payment. If the termination is for any other reason, any entitlement to bonus would normally lapse. Under any circumstance, it is the Committee's policy to ensure that any bonus payment reflects the departing executive Director's performance. Any bonus payment will normally be delayed until the performance conditions have been determined for the relevant period and be subject to a pro-rata reduction for the portion of the relevant bonus year that the individual was employed. Deferred bonus share awards will normally lapse on cessation of employment, however, in the case of good leavers, awards typically vest on the normal vesting date (or on cessation in the event of death).

With regards to PSP awards, if a participant resigns voluntarily, the award lapses. The 2014 PSP rules provide standard 'good leaver' definitions for death, retirement, injury, ill-health, disability, redundancy or transfer of employment outside the Group, or any other reason at the Committee's discretion, whereby awards will vest at their original vesting date subject to performance criteria being achieved and time pro-rating to reduce vested awards for time served in the relevant period. The Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances. Alternatively, for a 'good leaver', the Committee can decide that the award will vest on cessation subject to the performance conditions measured at that time and the same pro-rating described above. Such treatment will apply in the case of death.

In the event of a change of control, the treatment detailed above for good leavers would apply albeit with performance tested over the shortened performance period, and early vesting (if appropriate).

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

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

Stephen Young	31 July 2019
Richard Dakin	31 July 2019
Claudia Arney	31 May 2018
Simon Fraser	31 August 2018
Cilla Snowball	31 August 2018

Stuart Corbyn's appointment was extended for one year to expire on 23 May 2017.

Mr Rayne has a letter of appointment, which runs for three years, expiring on 25 March 2019. 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.

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

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

Remuneration element	Policy
Base salary	Base salary levels will be set taking into account the individual's experience and skills, prevailing market rates in companies of comparable size and complexity and internal relativities. Where appropriate the Committee may set the initial salary below this level (e.g. if the individual has limited PLC Board experience or is new to the role), with the intention to make phased pay increases over a number of years, which may be above those of the wider workforce, to achieve the desired market positioning. These increases will be subject to continued development in the role.
Benefits	Benefits as provided to current executive Directors. The Committee may pay relevant relocation and legal expenses in order to facilitate a recruitment.
Pension	A defined contribution or cash supplement at the level provided to current executive Directors.
Annual bonus	The Committee would intend to operate the same annual bonus plan for all Directors, including the same maximum opportunity at 150% of salary, albeit pro-rated for the period of employment. However, depending on the nature and timing of an appointment, the Committee reserves the right to set different performance measures, targets and weightings for the first bonus plan year if considered appropriate. Any bonus criteria in such circumstances would be disclosed in the following year's annual report on remuneration.
Long-term incentives	Performance Share Plan awards would be granted in line with the policy set out in the policy table, with the possibility of an award being made after an appointment. The maximum ongoing annual award would be limited to the maximum limit set out in the policy table. For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant.
Buy-out awards	Should it be the case that the Remuneration Committee considers it necessary to buy out remuneration which an individual would forfeit on leaving their current employer, such compensation would be structured so that the terms of the buy-out would have a fair value no higher than that of what is being forfeited and would generally be determined on a comparable basis taking into account the form, structure and vesting schedule of the remuneration being replaced as well as the probability of vesting. The Committee has the discretion to determine the type of replacement award (cash, shares), the vesting period and whether or not performance conditions apply. Where possible this will be accommodated under the Company's existing incentive plans, but it may be necessary to utilise the exemption under rule 9.4.2 of the Listing Rules. Shareholders will be informed of any such payments in the following year's annual report on remuneration.

Report of the Remuneration Committee

continued

Annual report on remuneration

Remuneration Committee

The Committee was served throughout the year by Simon Fraser, Stuart Corbyn, Stephen Young and Claudia Arney. On 1 July 2016, Claudia Arney took over the chair of the Committee from Simon Fraser and Stuart Corbyn left the Committee on 31 December 2016. None of the members who have served during the year had any personal interest in the matters decided by the Committee, or any day-to-day involvement in the running of the business and, therefore, are considered to be independent. The full terms of reference of the Committee are available on the Company's website.

New Bridge Street (NBS) – a trading name for Aon plc – was retained to provide independent assistance to the Committee regarding the setting of salaries and the operation of the PSP and bonus scheme. In particular, NBS provides an independent assessment of outcomes under the bonus scheme and the extent of vesting of the conditional share awards under the PSP and ensures that the measures used for both schemes are comparable and consistent. This year, NBS also advised the Committee on the revision of the Group's remuneration policy which will be voted on at the AGM in May 2017. The fees paid to NBS for these services, based on hourly rates, amount to £82,500. NBS did not provide any other services to the Group during the year and the Committee is satisfied that the advice provided by NBS is independent and objective.

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

Application of policy for 2017

Base salaries

The base salaries that are applicable from 1 January 2017, are as follows:

- John Burns – £638,000
- Simon Silver – £547,500
- Damian Wisniewski – £416,500
- Paul Williams – £416,500
- Nigel George – £416,500
- David Silverman – £416,500

John Burns and Simon Silver declined any increase in their base salary for 2017. Base salaries for the other Executive Directors were increased by 2.5% which was in line with the 'cost of living' increase awarded to the wider workforce.

Benefits and pension

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

Annual bonus

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

- 37.5% of bonus will be earned based on Derwent London's total return against other major real estate companies.
- 37.5% of bonus will be earned based on Derwent London's TPR versus the IPD Central London Offices Total Return Index.
- 25% of bonus will be earned subject to other performance objectives tailored to the delivery of the Group's short and medium-term strategy. The objectives will be similar to those used in the 2016 annual bonus, which are set out in full on page 97.

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

Total return pay-out accrues on a straight line basis between the threshold level for median performance and maximum payment for upper quartile performance or better. For TPR, the payout accrues on a straight line basis between the threshold level for index performance and maximum payment for index +3.0%.

Overview of remuneration framework

Remuneration component	Key features
Base salary and employment benefits	To help recruit, retain and motivate high calibre executives. Reflects experience and importance to the business. Includes: • Medical benefits. • Company car/allowance. • Pension.
Annual bonus	To incentivise the delivery of stretching financial targets and personal performance plans. Up to 150% of salary.
Long term incentive plan	To align long term interests of Directors with those of shareholders. Up to a maximum of 200% salary.
Share ownership guidelines	To provide alignment between Directors and shareholders. All executive Directors: 200% of salary. Non-executive Directors: n/a.

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

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

Long-term incentives

It is proposed that long-term incentive awards in 2017 will be granted at 200% of salary to all executive Directors.

Half of an award vests according to the Group's relative TSR performance versus the constituents of the FTSE 350 Real Estate Index with the following vesting profile:

TSR Performance of the Company relative to FTSE 350 Real Estate Index tested over three years	Vesting (% of TSR part of award)
Below median	0
At median	22.5
Upper quartile	100
Straight-line vesting occurs between these points	

The other half of an award vests according to the Group's relative TPR versus the IPD UK All Property Index Total Return Index with the following vesting profile:

Derwent London's annualised TPR versus the IPD UK All Property Index tested over three years	Vesting (% of TPR part of award)
Below index	0
At index	22.5
Index +3.0%	100
Straight-line vesting occurs between these points	

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

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

Non-executive Directors' fees

The fees effective from 1 January 2016 are: Chairman £150,000 (additional benefits are provided as detailed on page 92); base fee £42,500; Committee Chairman fee £7,500; Senior Independent Director fee £5,500; and Committee membership fee £4,000.

Report of the Remuneration Committee

continued

Directors' remuneration summary (audited)

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

Table 1

2016	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	638	67	149	222	–	1,076	277	1,353
S.P. Silver	547	49	144	191	–	931	238	1,169
D.M.A. Wisniewski	407	22	88	142	–	659	177	836
N.Q. George	407	22	94	142	–	665	177	842
P.M. Williams	407	22	92	142	–	663	177	840
D.G. Silverman	407	20	90	142	–	659	177	836
Non-executive								
R.A. Rayne	150	44	–	–	–	194	–	194
S.A. Corbyn	55	–	–	–	–	55	–	55
S.G. Young	62	–	–	–	–	62	–	62
S.W.D. Fraser	71	–	–	–	–	71	–	71
R.D.C. Dakin	62	–	–	–	–	62	–	62
C.I. Arney	54	–	–	–	–	54	–	54
P.D. Snowball	51	–	–	–	–	51	–	51
	3,318	**246**	**657**	**981**	**0**	**5,202**	**1,223**	**6,425**

[1] The gains from equity-settled shares are in respect of the 2014 award which will vest in May 2017 and for which the performance conditions were complete or substantially complete at 31 December 2016. The value is based on an estimate of expected vesting and the average share price over the last three months of 2016 of £25.12. As at 24 February 2017, the share price was £27.12.

2015	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	619	63	142	620	70	1,514	1,015	2,529
S.P. Silver	531	40	135	532	60	1,298	870	2,168
D.M.A. Wisniewski	395	22	87	394	45	943	554	1,497
N.Q. George	395	19	92	394	45	945	554	1,499
P.M. Williams	395	21	91	394	45	946	554	1,500
D.G. Silverman	395	20	87	394	45	941	531	1,472
Non-executive								
R.A. Rayne	150	42	–	–	–	192	–	192
S.A. Corbyn	67	–	–	–	–	67	–	67
J. de Moller[2]	54	–	–	–	–	54	–	54
S.G. Young	62	–	–	–	–	62	–	62
S.W.D. Fraser	62	–	–	–	–	62	–	62
R.A. Farnes[3]	21	–	–	–	–	21	–	21
R.D.C. Dakin	62	–	–	–	–	62	–	62
C.I. Arney[4]	27	–	–	–	–	27	–	27
P.D. Snowball[5]	15	–	–	–	–	15	–	15
	3,250	**227**	**634**	2,728	**310**	**7,149**	**4,078**	**11,227**

[1] The value of gains for equity-settled schemes presented in last year's report was based on an estimate of vesting and the average share price over the last three months of 2015. The value has been restated in this year's report to reflect the actual number of awards which vested and the share price on the date the awards were transferred to participants.

[2] June de Moller retired from the Board in December 2015.

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

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

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

Payments for loss of office
No payments were made to past Directors or in respect of loss of office during 2016 or 2015.

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

Determination of 2016 annual bonus outcome
Provision has been made for a bonus for 2016 of 23.3% (2015: 74.2%) of the maximum potential. This has been derived as follows:

Performance measure	Weighting % of bonus	Basis of calculation	Threshold %	Three quarter vesting %	Maximum %	Actual %	Payable %
Total return	50.0	Total return of major real estate companies	2.6	n/a	10.1	1.7	Nil
Total property return	25.0	Relative to IPD Central London Offices Total Return Index	2.4	4.9	7.4	2.9	8.25

In addition to the above formulaic result, 25% of the annual bonus is measured against the following set of strategic targets:

	Target range	Maximum award	2016 achievement	2016 award
Void management This is measured by the Group's average EPRA vacancy rate over the year. More details on this KPI are given on page 32.	0-10%	5.0%	2.6%	4%
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires. This key metric is described in more detail on page 33.	50-75%	5.0%	63%	3%
Portfolio's development potential This is measured by the percentage of the Group's portfolio by area, where a potential development scheme has been identified. This is another key metric monitored by the Board and more detail is given on page 33.	40-50%	2.5%	43%	1%
Unexpired lease term This is measured by the 'topped-up' weighted average unexpired lease term of the Group's core income producing portfolio. Whilst not a published key metric, it is used by management to help maintain an appropriately balanced portfolio.	5-10 years	2.5%	8.9 years	2%
Sustainability This is assessed by the Group's achievements against the BREEAM benchmark at its new developments or major refurbishments. More details on this KPI are given on page 32.	New build – Excellent Major refurbishment – Very good	5.0%	Both schemes assessed this year achieved their targets	5%
Staff satisfaction Staff surveys are used to assess this measure.	70% to >90% of staff to be satisfied or better	5.0%	96%	5%
		25%		**20%[1]**

[1] The Committee has used its discretion to reduce the award derived from the strategic targets by 25% to give a final award of 15% out of the possible 25%.

These results demonstrate the extremely strong year that the Group had at an operational level. However, the Committee recognises that this is not reflected in the financial or share price performance of the Group which has been dominated by the market effects of the Brexit vote. Given this unique situation, the Committee has used its discretion to reduce the award derived from the strategic targets by 25% to give a final award of 15% out of the possible 25%.

The total bonus estimated for each executive is therefore:

	Bonus payable			Deferred bonus	
Executive	% of maximum	% of salary	Cash bonus payable £	£	% of salary
J.D. Burns	23.25	34.88	222,503	–	–
S.P. Silver	23.25	34.88	190,941	–	–
D.M.A. Wisniewski	23.25	34.88	141,767	–	–
N.Q. George	23.25	34.88	141,767	–	–
P.M. Williams	23.25	34.88	141,767	–	–
D.G. Silverman	23.25	34.88	141,767	–	–

The Committee plans to use the same metrics for 2017 but the targets will be disclosed retrospectively as they are considered to be commercially sensitive.

Report of the Remuneration Committee

continued

Performance Share Plan

Half the awards granted in 2014 under the 2014 Performance Share Plan (PSP) were subject to a relative TSR performance measure and half subject to the Group's total property return. The performance condition was complete or substantially complete at the year end and the Committee made the following assessment of vesting:

Performance measure	Weighting % of award	Basis of calculation	Threshold %	Three quarter vesting %	Maximum %	Actual %	% vesting/ estimated vesting
Total property return	50	Relative to IPD Central London Offices Total Return Index	14.7	17.2	19.7	16.0	24.9
Total shareholder return	50	TSR of major real estate companies	17.7	n/a	48.2	6.0	Nil

As required by the scheme rules, before allowing any vesting, the Committee considered whether these performance measures reflected the Group's underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the Committee concluded that, for the parts of the 2014 awards with measurement periods ending in 2016, this was the case.

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

Executive	Number of shares vesting	Value of award on vesting[1] £
J.D. Burns	11,044	277,425
S.P. Silver	9,474	237,987
D.M.A. Wisniewski	7,033	176,669
N.Q. George	7,033	176,669
P.M. Williams	7,033	176,669
D.G. Silverman	7,033	176,669

[1] Based on the average share price over the last three months of the financial year of £25.12 and the estimated vesting percentage of 24.9%.

The vested awards are subject to a two year holding period.

On 4 April 2016 the Committee made an award under the Group's 2014 PSP to executive Directors on the following basis:

	Type of award	Basis of award granted % of salary	Share price at date of grant £	Number of shares awarded	Face value of award £	% of face value which vests at threshold
J.D.Burns	Nil-cost option	200	31.35	40,700	1,275,945	22.5%
S.P.Silver	Nil-cost option	200	31.35	34,925	1,094,899	22.5%
D.M.A.Wisniewski	Nil-cost option	200	31.35	25,930	812,906	22.5%
N.Q.George	Nil-cost option	200	31.35	25,930	812,906	22.5%
P.M.Williams	Nil-cost option	200	31.35	25,930	812,906	22.5%
D.G.Silverman	Nil-cost option	200	31.35	25,930	812,906	22.5%

If threshold performance is not achieved over the three-year performance period, none of the award will vest. The performance conditions are described in more detail on page 95.

The outstanding performance share plan awards held by Directors are set out in the table below:

Table 2

Market price at award date £	Earliest vesting date	J.D. Burns	S.P. Silver	D.M.A. Wisniewski	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total
17.19	12/04/15	57,720	49,475	31,500	31,500	31,500	29,230	12,620	243,545
21.20	08/04/16	48,200	41,350	26,320	26,320	26,320	25,250	10,560	204,320
27.12	29/05/17	44,355	38,050	28,245	28,245	28,245	28,245	12,745	208,130
Interest as at 1 January 2015		150,275	128,875	86,065	86,065	86,065	82,725	35,925	655,995
Shares conditionally awarded on 30 March 2015									
Market price at award date £	Earliest vesting date								
34.65	30/03/18	35,750	30,675	22,770	22,770	22,770	22,770	10,280	167,785
34.65	22/05/18							20,510	20,510
Shares vested or lapsed during 2015									
Market price at award date £	Market price at date of vesting £								
17.19	35.27	(28,860)	(24,738)	(15,750)	(15,750)	(15,750)	(14,615)	(6,310)	(121,773)
17.19	Lapsed	(28,860)	(24,737)	(15,750)	(15,750)	(15,750)	(14,615)	(6,310)	(121,772)
Interest as at 31 December 2015		128,305	110,075	77,335	77,335	77,335	76,265	54,095	600,745
Shares conditionally awarded on 4 April 2016									
Market price at award date £	Earliest vesting date								
31.35	04/04/19	40,700	34,925	25,930	25,930	25,930	25,930	28,270	207,615
Shares vested or lapsed during 2016									
Market price at award date £	Market price at date of vesting £								
21.20	32.05	(31,653)	(27,155)	(17,284)	(17,284)	(17,284)	(16,582)	(6,935)	(134,177)
21.20	Lapsed	(16,547)	(14,195)	(9,036)	(9,036)	(9,036)	(8,668)	(3,625)	(70,143)
Interest as at 31 December 2016		**120,805**	**103,650**	**76,945**	**76,945**	**76,945**	**76,945**	**71,805**	**604,040**

	31 December 2016	31 December 2015	1 January 2015
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.31 years	1.29 years	1.26 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2016 was £nil (2015: £nil). The weighted average market price of awards vesting in 2016 was £32.05 (2015: £35.27).

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

Report of the Remuneration Committee

continued

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

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

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2016 comprises the following – Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. Under the 2004 PSP 25% of awards subject to the TSR target vest for median performance over the three-year performance period increasing to full vesting for upper quartile performance. Median performance under the 2014 PSP results in 22.5% of the award subject to the TSR target test vesting with full vesting still requiring upper quartile performance.

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

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

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

Share option schemes
Disclosure relating to a share option scheme in which the Directors do not participate is given in note 13 on page 132.

Deferred bonus shares
Details of the deferred bonus shares held by the Directors are given in table 3.

Table 3

		J.D. Burns	S.P. Silver	D.M.A. Wisniewski	N.Q. George	P.M. Williams	D.G. Silverman	Total
Interest as at 1 January 2015		12,928	11,088	4,019	3,157	4,019	3,012	38,223
Deferred in 2015								
Date of deferment	Value per share on deferment £							
25/03/15	35.27	6,639	5,695	4,227	4,227	4,227	4,227	29,242
Vested in 2015								
Date of vesting	Value per share on vesting £							
26/03/15	34.65	(3,725)	(3,193)	(571)	(571)	(571)	(530)	(9,161)
26/03/15	34.65	(4,602)	(3,948)	(1,724)	(1,293)	(1,724)	(1,241)	(14,532)
Interest at 31 December 2015		11,240	9,642	5,951	5,520	5,951	5,468	43,772
Deferred in 2016								
Date of deferment	Value per share on deferment £							
24/03/16	31.21	2,249	1,929	1,432	1,432	1,432	1,432	9,906
Vested in 2016								
Date of vesting	Value per share on vesting £							
24/03/16	31.21	(4,601)	(3,947)	(1,724)	(1,293)	(1,724)	(1,241)	(14,530)
24/03/16	31.21	(3,320)	(2,847)	(2,114)	(2,114)	(2,114)	(2,114)	(14,623)
Interest at 31 December 2016		**5,568**	**4,777**	**3,545**	**3,545**	**3,545**	**3,545**	**24,525**

Directors' interests in shares and shareholding guideline
Details of the Directors' interests in shares and shareholding guidelines are given in table 4.

Table 4

	£'000			Number of shares			
	2017 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	Total
J.D. Burns	638	1,276	17,732	653,847	5,568	120,805	780,220
S.P. Silver	547	684	5,793	213,617	4,777	103,650	322,044
D.M.A. Wisniewski	416	520	761	28,067	3,545	76,945	108,557
N.Q. George	416	520	1,338	49,352	3,545	76,945	129,842
P.M. Williams	416	520	1,318	48,594	3,545	76,945	129,084
D.G. Silverman	416	520	610	22,499	3,545	76,945	102,989

[1] Valued at £27.12, the value of a 5p ordinary share in the Company on 24 February 2017.

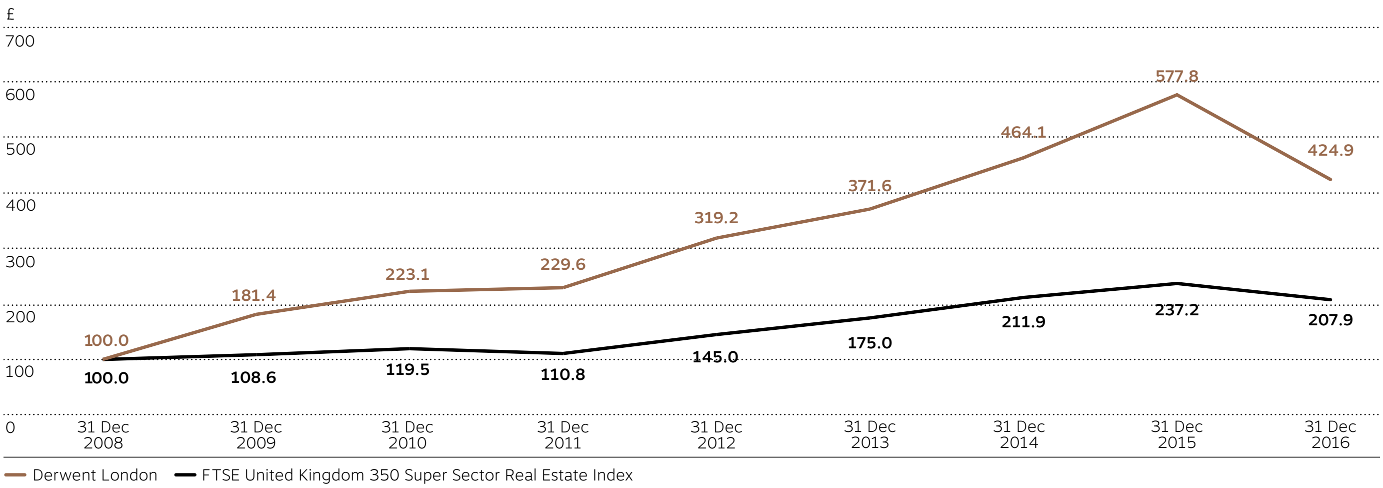
The shareholding guideline in place at the year-end was 200% of salary for the CEO and 125% of salary for other Directors.

Details of non-executive Directors' shareholdings are given on page 79.

Report of the Remuneration Committee

continued

Total shareholder return



Source: Thomson Reuters.

This graph shows the value, by 31 December 2016, of £100 invested in Derwent London on 31 December 2008 compared to that of £100 invested in the FTSE 350 Super Sector Real Estate Index. The other points plotted are the values at intervening financial year ends.

This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose.

The market price of the 5p ordinary shares at 30 December 2016 was £27.72 (2015: £36.72). During the year, they traded in a range between £22.57 and £33.96 (2015: £30.02 and £38.80).

Remuneration of the Chief Executive Officer 2008 – 2016

Year Ending	Executive	Total remuneration £'000	Annual bonus (% of max)	LTIP vesting (% of max)
31/12/16	J.D. Burns	1,353	23.3	24.9[1]
31/12/15	J.D. Burns	2,529	74.2	65.7
31/12/14	J.D. Burns	2,648	92.6	50.0
31/12/13	J.D. Burns	2,478	95.0	55.2
31/12/12	J.D. Burns	2,721	85.4	83.8
31/12/11	J.D. Burns	2,387	90.0	50.0
31/12/10	J.D. Burns	2,304	87.5	50.0
31/12/09	J.D. Burns	1,384	62.5	47.6
31/12/08	J.D. Burns	956	25.6	36.5

[1] Estimate.

Percentage increase in the remuneration of the Chief Executive Officer

	2016	2015	% change
Chief Executive (£'000)			
Salary	**638.0**	619.5	3.0
Benefits	**215.4**	205.2	5.0
Bonus	**222.5**	690.0	(67.8)
Average employee (£'000)			
Salary	**70.6**	66.8	5.7
Benefits	**16.3**	13.6	19.9
Bonus	**23.3**	23.0	1.3

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

Relative importance of the spend on pay

	2016	2015	% change
Staff costs (£m)	**24.5**	24.0	2.1
Distributions to shareholders (£m)	**49.7**	45.0	10.4
Net asset value[1] (£m)	**3,932**	3,923	0.23

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

Statement of shareholder voting
At the Company's 2016 AGM, the report of the Remuneration Committee received the following votes from shareholders:

	Annual report on remuneration	
2016 AGM	m	%
Votes cast in favour	**83.2**	**95.5**
Votes cast against	**3.9**	**4.5**
Total votes cast	**87.1**	**–**
Votes withheld	**4.3**	**–**

The Directors' remuneration policy was not voted on at the 2016 AGM.

The disclosures on Directors' remuneration in tables 1 to 4 on pages 96 to 101 have been audited as required by the Companies Act 2006.

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

Claudia I. Arney
Chairman of the Remuneration Committee
28 February 2017

Letter from the Chairman of the Nominations Committee

Simon Fraser
Chairman of the Nominations Committee

Dear Shareholder,

I am pleased to present the Committee's report for 2016.

I took over the Chairmanship of the Nominations Committee at the start of the year when we had just completed the induction process for Claudia Arney and Cilla Snowball. Whilst these appointments had broadened the mix of skills and experience of the Board, a vital ingredient in providing effective challenge to the executives, the Committee is mindful that there needs to be a careful balance between such refreshment and continuity. Recognising this, there was no planned recruitment in 2016. However, to ensure that the new non-executive Directors served on Committees where their particular skills would be most useful, the Committee undertook a review of the membership of all the Board Committees.

Another element of maintaining an effective and balanced Board is effective succession planning. As well as ensuring that Board changes are planned and managed this also makes sure that the Board can continue to deliver its strategy in the event of unforeseen circumstances. Therefore, ensuring that there are succession plans in place for key individuals remained a priority for the Committee during 2016.

The final area of focus for the Committee was to improve the utility of the annual review of the effectiveness of the Board and its Committees. Having satisfied this point of governance for the last three years by using an externally facilitated questionnaire, it was decided to enhance the exercise this year by adding interviews to the process. The results of this extended assessment are discussed on page 81.

Last year I referred to the FRC's discussion paper on board Succession Planning and its Culture Project. As expected, both initiatives gave rise to reports during 2016 which set out their findings and we now wait for an update to the FRC's 'Guidance on Board Effectiveness' which will reflect the feedback received and is expected in 2017.

Simon W.D. Fraser
Chairman of the Nominations Committee
28 February 2017

Report of the Nominations Committee

Committee membership
Throughout 2016, the Committee consisted of Stuart Corbyn, Richard Dakin and Cilla Snowball under the chairmanship of Simon Fraser. All members are considered independent by the Company having no day-to-day involvement with the Company.

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

Meetings
The Committee meets at least once a year to arrange for the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's other responsibilities. The Committee met twice in 2016.

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

- Led an enhanced annual appraisal of the Board, its Committees and the Chairman which this year included interviews with all the Directors and the Company Secretary. The appraisal process was carried out by Lintstock, an independent corporate advisory firm which provides no other services to the Group.
- Reviewed the membership of the Board Committees to ensure that the composition of each was appropriate.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Reviewed the terms of reference for the Committee.
- Considered the results of the annual appraisal of the Committee's performance.

Simon W.D. Fraser
Chairman of the Nominations Committee
28 February 2017

Letter from the Chairman of the Risk Committee

Richard Dakin
Chairman of the Risk Committee

Dear Shareholder,

I am pleased to present the Committee's 2016 report.

In last year's statement, I referred to the uncertainty caused by the imminent Brexit referendum. As it turned out, the Leave vote radically changed the risk profile facing the Group by creating a heightened level of political uncertainty which is likely to persist for a number of years. The immediate effect of this was a downgrading of the economic prospects for the UK and in particular for those of London and a consequent increase in the risks to the delivery of the Group's strategic objectives. In addition to this new layer of risk, there was no abatement during the year in the overall level of risks presented by external factors including those arising from cyber attacks and the geopolitical upheaval caused by the result of the US election. Given the nature of these factors, the Committee does not anticipate a reduction in the level of risk over the next few years.

As in previous years, the Committee's work during 2016 was focussed on areas identified from its review of the Group's top ten risks. This included receiving an update on the progress being made with the planned improvements to the resilience of the IT systems that had been established in 2015. Progress was on target but in view of the new IT infrastructure being introduced as part of the Group's move to new offices, further improvement is expected when the 2017 annual cyber risk review is carried out.

The Committee also received a presentation on the Group's health and safety procedures which was identified as a key risk given the level of development activity underway throughout the portfolio at the current time. This will be followed up in 2017 once the new health and safety consultants have completed their review of the existing procedures and their suggested improvements have been introduced.

The Committee's monitoring of the Group's risk management and internal control system, as required by the UK Corporate Governance Code, was enhanced by the introduction of a desktop of Key Risk Indicators which the Committee reviewed at each of its meetings.

Richard D.C. Dakin
Chairman of the Risk Committee
28 February 2017

Report of the Risk Committee

The Committee was chaired by Richard Dakin and served throughout 2016 by Stephen Young, Cilla Snowball, John Burns and Damian Wisniewski.

Rules and responsibilities

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

Meetings

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

Work of the Committee

During the year the Committee undertook the following tasks:

- Reviewed the Group's risk register and considered the top ten risks at each meeting.
- Received presentations from senior management concerning the controls over certain parts of the business or specific risks. The areas of focus were determined by the review of the top ten risks and key presentations covered cyber risk and health and safety. Other risks specifically considered were those around construction contracts and insurance.
- Considered the operation of the Group's risk management system and non-financial internal controls.
- Regularly reviewed the Group's Key Risk Indicator dashboard.
- Considered whether a robust assessment of the Group's principal risks had been carried out and, after due consideration, confirmed to the Board that this was the case.
- Considered a report from the Group's legal advisers concerning potential regulatory risks over the next 12 months.
- Regularly reviewed the Group's quarterly register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Reviewed the Committee's terms of reference.
- Considered the content of the annual appraisal of the Committee's performance.

Richard D.C. Dakin
Chairman of the Risk Committee
28 February 2017

Letter from the Chairman of the Audit Committee

Stephen Young
Chairman of the Audit Committee

Dear Shareholder,

I am pleased to present this year's report of the Audit Committee.

During the year, in order to implement EU legislation, the FRC completed its latest update of the UK Corporate Governance Code (the 'Code') and also revised its Guidance on Audit Committees. The main change to the Code is an additional requirement that 'the Committee as a whole shall have competence relevant to the sector in which the Company operates'. Following the review of the membership of all the Board Committees carried out at the start of the year by the Nominations Committee, the Committee is satisfied that it meets this requirement.

The new requirements apply to accounting periods commencing on or after 17 June 2016 which means that they are not mandatory for Derwent London until next year. However, we believe that, in most aspects, the report of the Audit Committee that follows complies with the new requirements.

With regard the regular duties of the Committee, it was again asked by the Board to consider whether the Group's report and accounts were, taken as a whole, fair balanced and understandable; it considered the appropriateness of the Group's Going Concern and Viability statements; and it reviewed the integrity of the financial reporting and internal controls. In each of these instances, after carrying out appropriate procedures, the Committee was satisfied with the proposed disclosure. Details of this and other work carried out by the Committee are set out in the following report.

The annual review of the effectiveness of the Audit Committee was carried out by Lintstock. It concluded that the Committee was very effective and made recommendations for further improvement which we shall look to implement in 2017.

Stephen G. Young
Chairman of the Audit Committee
28 February 2017

Report of the Audit Committee

Membership

Throughout 2016, the Committee consisted of Stuart Corbyn, Simon Fraser, Richard Dakin and Claudia Arney under the chairmanship of Stephen Young. All Committee members are considered independent by the Board, having no day-to-day involvement with the Company and, with the exception of Stuart Corbyn, not having been with the Company for more than nine years. The Board's position regarding Stuart is discussed on page 81. Due to his position as Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, Richard Dakin does not take part in the Committee's considerations regarding the valuation of the Group's property portfolio.

The composition of the Committee was a matter considered as part of the annual assessment of the Committee. The response supported the Board's view that, taken as a whole, the Committee has competence relevant to the property sector. The Board is also satisfied that, as a qualified accountant, Stephen Young has appropriate recent and relevant financial experience to discharge his duties as Chairman of the Committee.

If required, the Committee has access to further financial expertise, at the Company's expense.

Roles and responsibilities

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

Meetings

The Committee met four times during the year to discharge its responsibilities. These were attended by the Group's external Auditor and members of the Group's senior management when invited. Two additional meetings are held each year with the Group's independent property valuers (CBRE) to consider the valuation of the property portfolio. Following each meeting, the Chairman updates the Board on the matters discussed and the decisions made.

Work of the Committee

During the year, the Committee's work covered the following areas:

External Auditor

- Assessed the effectiveness of the external audit.
  The assessment took into account the views of both management and the Auditor and was supported by a questionnaire that highlighted the key areas. The Committee also reviewed the audit plan, which was focussed on risk and materiality, and considered the quality of the planning, the extent to which it was tailored to the business and its ability to respond to any changes in the business. Finally, the Committee noted the fees paid to the Auditor for both the statutory audit and non-audit services which are set out below.

	2016 £'000	2015 £'000
Audit of Derwent London plc and subsidiaries	**330**	320
Total audit services	**330**	320
Review of interim results	**39**	38
Other assurance services	**–**	–
Non-audit services	**–**	–
Total other services	**39**	38
Total fees	**369**	358

Having taken all these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently and to a high quality. Accordingly, the Committee has recommended to the Board that PwC be re-appointed as Auditor to the Group.

- Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external Auditor. In assessing this matter the Committee noted the following:
  - Each year the Auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. The letter reflects the Auditor's views on the following matters:
    - Any relationships of which they are aware that, in their professional judgement, may reasonably be thought to bear on their independence and the objectivity of the audit engagement partner and staff.
    - Any services that the Auditor has provided to the Group in addition to the audit of the consolidated financial statements.
    - The total amount of fees that the Auditor has charged the Group for the provision of services during the reporting period.
    - The amounts of any future services that have been contracted for, or where a written proposal has been submitted.
  - The Company operates a policy under which the Auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee. There have been no such appointments during 2016.
- Reviewed the tenure of the external Auditor and the lead audit partner. PwC were appointed the Group's Auditor in 2014 and Craig Hughes has been the lead audit partner since then. In accordance with the current regulations the audit will be re-tendered every ten years. There are no contractual restrictions in relation to the Group's choice of external Auditor.

Significant financial judgements

- Considered the appropriateness of the accounting policies, assumptions, judgements and estimates used in the preparation of the financial statements. In discharging this responsibility, the Committee routinely considers the potential for fraud arising from revenue recognition and the overriding of controls by management. In addition the following significant financial judgements were identified and the procedures set out below carried out:
  - Valuation of the Group's property portfolio
    The Committee considers this to be the major area of judgement in determining the accuracy of the financial statements as it is a major component in determining the Group's net asset value. In view of this, meetings were held with the Group's external valuers before both the interim and final results to consider the portfolio valuation contained therein. These meetings were led by members of the Committee with relevant and current expertise in property valuation. Key matters discussed during the meetings include the assumptions underlying the valuation, any valuation which required a greater level of judgement than normal, for example development properties, and any valuation movements that were not broadly in line with that of the IPD benchmark.
    The assumptions were also discussed with the Auditors who have their own valuation experts and carry out their own

Report of the Audit Committee

continued

independent tests. This year the valuation of the Group's Hampstead Road property was the subject of particularly detailed scrutiny. These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.

- Taxation and REIT compliance
The Committee was aware that, should the Group not comply with the REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee noted the frequency with which compliance with the regulations was reported to the Board and considered the margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts the Committee agreed that, once again, no further action was required for the current year.

- Borrowings and derivatives
The valuation of the 2019 convertible debt and interest rate swaps was seen as an area of elevated risk. The Committee noted that the valuations were carried out by an independent third party which had valued the instruments in previous years and that the Auditor used its own treasury specialists to re-perform the valuation and to assess the reasonableness thereof. The Auditor subsequently confirmed that no issues had arisen relating to the valuation. The Committee was satisfied with the level of assurance gained from these procedures.

Fair, balanced and understandable

- Reviewed the Group's annual report and accounts to consider whether, taken as a whole, they were fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. In carrying out this review, and subsequently reporting its opinion to the Board, the Committee had regard to the following:
  - The adequacy of the systems for bringing all the relevant information to the attention of the preparers of the report and accounts and the adequacy of the controls operating over the systems.
  - Whether the procedures for obtaining assurance over the accuracy of the information were sufficient.
  - The consistency of the reports within themselves and with other reports and whether they are in accordance with the information received by the Board during the year.
  - Whether the statements were written in straightforward language, without undue repetition and with the use of any 'adjusted' measures adequately explained.

Following its review, the Committee was satisfied that the Group's report and accounts, taken as a whole, present a fair, balanced and understandable overview and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Viability statement

- Considered the appropriateness of the Group's viability statement and going concern assumption and advised the Board accordingly.

Risk management and internal control

- Reviewed the effectiveness of the Group's system of internal financial controls. The Board retains ultimate responsibility for the effective management of risk across the Group but has delegated responsibility for this review to the Audit Committee. The review of internal non-financial controls is delegated to the Risk Committee. In conducting its review, the Committee noted that no matters had been raised by PwC as a result of their controls testing undertaken as part of the annual audit. The Committee also reviewed the Group's Risk Register, together with the controls that constitute the system of internal financial controls and the evidence that they had operated effectively over the period. No areas of weakness were identified and, as a result of the review, the Committee confirmed to the Board that the system of internal financial controls had operated effectively for the year ended 31 December 2016 and up to 28 February 2017.

Internal audit

- Considered the need for an internal audit function and concluded that, in view of the close involvement of the Directors in the day-to-day operations, the scale and complexity of the organisation and the focussed nature of the Group's business, there is no need to establish an internal audit function at the present time. However, external assurance may be sought in particular areas that are identified as higher risk.

Other matters addressed by the Committee

- The Company was contacted by the FRC regarding its disclosure in the 2015 Report and Accounts relating to the accounting for conversion of the 2.75% unsecured convertible bonds 2016. The Committee assisted the Company in responding to the request for further information following which the matter was satisfactorily concluded with no adjustment being required. Additional disclosures are included in the 2016 annual report.

  The FRC's review was based on the Company's annual report and accounts and does not benefit from detailed knowledge of its business or an understanding of the underlying transactions entered into. Their correspondence provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.
- Monitored the integrity of the Group's interim and annual financial statements and the two business updates published during the year and reviewed the significant financial reporting judgements contained in them.
- Reviewed the terms of reference for the Committee.
- Noted that the accounts for the Group's pension schemes had been audited and that no matters had been raised.

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

Stephen G. Young
Chairman of the Audit Committee
28 February 2017

Directors' report

Timothy Kite
Company Secretary

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2016.

This Annual Report contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Derwent London does not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this Report and Accounts should be construed as a profit forecast or to imply that Derwent London's earnings for the current year or future years will necessarily match or exceed its historical or published earnings.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Company status and branches

Derwent London plc is a Real Estate Investment Trust and the holding company of the Derwent London group of companies which includes no branches. It is listed on the London Stock Exchange main market with a premium listing.

Additional information

Additional information which is incorporated into this Directors' report by reference, including information required in accordance with the Companies Act 2006 and the Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located on the following pages:

Directors' report

continued

Appointment and replacement of Directors

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

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

The articles provide that, at every AGM of the Company, any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. However, in accordance with Provision B.7.1 of the Code, the Company subjects all Directors to annual re-election and therefore at the next AGM all the Directors will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on pages 74 and 75.

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

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

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

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

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

Powers of the Directors

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

Conflicts of interest

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

Derwent London shares held by the Group

At 31 December 2016 the Group held 25,040 Derwent London shares in order to deliver the deferred bonus shares to the Directors and other senior executives when the deferral periods expire. Movements on the holding of these shares are detailed below:

Transaction	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Holding as at 1 January 2015	38,223	0.034		625,557
Disposal on 26 March 2015	(23,693)	(0.021)	34.65	(820,962)
Acquired on 26 March 2015	30,273	0.027	34.65	1,048,959
Maximum holding during 2015 and 2016 and holding as at 31 December 2015	44,803	0.040		853,554
Disposal on 24 March 2016	(29,669)	(0.027)	31.21	(925,969)
Acquired on 24 March 2016	9,906	0.009	31.21	309,166
Holding as at 31 December 2016	**25,040**	**0.022**		**236,751**

Share capital

As at 28 February 2017, the Company's issued share capital comprised a single class of 5p ordinary shares. Details of the ordinary share capital and shares issued during the year can be found in note 26 to the financial statements.

Rights and restrictions attaching to shares

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

Variation of rights

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

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

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

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

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

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

Voting

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

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

Restrictions on voting

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

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

Directors' report

continued

Restrictions on transfer of securities in the Company

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

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

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

Powers in relation to the Company issuing or buying back its own shares

The Directors were granted authority at the 2016 AGM to allot relevant securities up to a nominal amount of £1,852,868. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,856,497 and (ii) up to a nominal amount of £3,712,994 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the 'section 551 authority'), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £556,949. A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,138,984 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Substantial shareholders

In addition to those of the Directors disclosed on page 79, the Company has been notified of the following interests in the issued ordinary share capital as at 28 February 2017.

	Number of shares	Percentage of issued share capital
Invesco Limited	11,601,909	10.41
BlackRock Investment Management (UK) Ltd	6,906,835	6.21
Norges Bank	5,547,762	4.99
Lady Jane Rayne	3,593,838	3.23

Significant agreements

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

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

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

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

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

Amendment of articles of association

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

Fixed assets

The Group's freehold and leasehold investment and owner-occupied properties were professionally revalued at 31 December 2016, resulting in a deficit of £21.1m, before accounting adjustments of £21.5m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £4,838.0m. Further details are given in note 16 of the financial statements.

Post balance sheet events

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

Disclosure of information to Auditors

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

Auditors

PricewaterhouseCoopers LLP, which was appointed in 2014 following a competitive tender process, has expressed its willingness to continue in office as the Group's Auditor and accordingly, resolutions to reappoint it and to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 18 and 19 set out in the notice of meeting.

Dividend

The Directors are recommending a final dividend of 38.50p per share in respect of the year ended 31 December 2016. In addition, the Directors are proposing the payment of a special dividend of 52.00p per share. Shareholders will be asked to approve both these distributions at the Company's AGM on 19 May 2017.

Annual General Meeting

The thirty third AGM of Derwent London plc will be held at The Westbury, Bond Street, London W1S 2YF on 19 May 2017 at 10:30am. The Notice of Meeting together with explanatory notes is contained in the circular to shareholders that accompanies the report and accounts.

Our carbon footprint

We present below our annual GHG (greenhouse gas) emissions footprint for 2016 compared to our 2015 footprint together with a set of intensity ratios appropriate for our business, both of which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report Regulations 2013).

As with previous years, we have again seen reductions in our corporate carbon footprint by 9% and carbon intensity (tCO_2e/m^2) reductions of 5%.

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

Total managed portfolio including corporate based emissions

			2016	2015	% change 2015 to 2016
Scope 1	Energy-use	Gas (total building)	**2,637**	2,700	(2.3)
		Oil (total building)	**37**	48	(23.3)
	Travel	Fuel use in Derwent London company cars for business travel	**23**	11	104.4
	Fugitive emissions	Refrigerant emissions	**837**	427	96.0
Scope 2	Energy-use	Electricity use – generation (landlord-controlled areas and Derwent London occupied floor area)	**4,342**	5,406	(19.7)
Scope 2	Energy-use	Market based residual mix	**5,733**	6,363	(9.9)
Scope 3	Energy-use	Electricity use – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	**652**	806	(19.1)
		Electricity use – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	**452**	513	(11.9)
		Gas (total building)	**358**	363	(1.4)
		Oil (total building)	**7**	10	(29.8)
	Travel	Fuel use in Derwent London company cars for business travel WTT	**5**	2	99.3
		Business air travel WTT	**4**	3	61.7
		Business air travel	**38**	23	65.8
	Water	Water use (total building)	**52**	55	(6.1)
Total (exc residual mix)	**All**	**All**	**9,444**	10,367	(8.9)
Total (inc residual mix)	**All**	**All**	**10,835**	11,323	(4.3)

Intensity

tCO_2e/£m turnover (Scopes 1 and 2 only, including Scope 1 fugitive emissions)	**50.49**	56.53	(10.7)
Intensity (tCO_2e/m^2) including Scope 1 fugitive emissions	**0.024**	0.025	(5.1)
Tenant emissions Scope 1 + 2 + 3	**13,330**	15,562	(14.3)

Out of scope

Energy-use	Biomass use (total building)	**28**	31	(7.2)

Data notes

Reporting period	1 January to 31 December 2016
Baseline year	2015
Boundary (consolidation approach)	Operational control
Alignment with financial reporting	The only variation is that the GHG emission data presented does not account for single-let properties or properties for which we do not have management control. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements. The percentage movements are calculated using the figures before rounding.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions factor source	DEFRA, 2016 – https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting for all emissions factors apart from the Scope 2 market based (residual mix) factor which is from Reliable disclosure systems for Europe, 2014 European residual mixes – http://www.reliable-disclosure.org/documents/
Independent assurance	Public limited assurance (using ISAE 3000) provided by Deloitte LLP over all Scope 1, 2 and 3 GHG emissions data.
Data changes and restatements	No data changes or restatements.

Timothy J. Kite ACA
Company Secretary
28 February 2017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78 WHITFIELD STREET W1

Following a lease expiry on this property in Fitzrovia we lightly refurbished 34,000 sq ft. Work completed in Q3 2016, creating a new reception and adding 3,150 sq ft of terrace space. In the last few months 46% has been let. The building forms part of a potential future re-development of Network Building, which could start in 2021 and total c.100,000 sq ft.

3 Financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the report of the Remuneration Committee and the financial statements in accordance with applicable law and regulations.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the report of the Remuneration Committee comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the Directors, whose names and functions are listed on pages 74 and 75 confirm that, to the best of their knowledge:

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

On behalf of the Board

John D. Burns
Chief Executive Officer
28 February 2017

Damian M.A. Wisniewski
Finance Director

Independent Auditor's report

Report on the financial statements

Our opinion

In our opinion:

- Derwent London plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

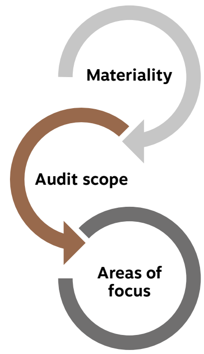
The financial statements, included within the Report and Accounts (the 'Annual Report'), comprise:

- the balance sheets as at 31 December 2016;
- the Group income statement and Group statements of comprehensive income for the year then ended;
- the cash flow statements for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach
Overview



Materiality

- Overall Group materiality: £50.5 million (2015: £46.4 million) which represents 1% of total assets.
- Specific materiality: £4.0 million (2015: £4.0 million) applied to property and other income, administrative expenses, provisions and working capital balances.

Audit scope

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

Areas of focus

- Valuation of investment properties due to significance and subjectivity.
- Compliance with the REIT guidelines on which the Group's tax status is based due to the consequences of any breach.
- Accounting for borrowings and the associated interest rate swaps.

The scope of our audit and our areas of focus

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

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

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

Independent Auditor's report

continued

Area of focus	How our audit addressed the area of focus
Valuation of investment properties Refer to pages 107 and 108 (Report of the Audit Committee), pages 137 to 139 (Notes to the financial statements – Note 16) and page 167 (Significant accounting policies). The Group's investment properties were valued at £4,803.8m as at 31 December 2016 and a revaluation deficit of £37.1m was accounted for under 'revaluation deficit' in the Group income statement. In excess of 98% of the value of the Group's investment property portfolio comprises offices and commercial space within Central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland. Valuations are carried out by third party valuers in accordance with the RICS Valuation – Professional Standards and IAS 40. There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group. The Central London investment property portfolio mainly features office accommodation and includes: • Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method; • Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a risk premium). The most significant judgements and estimates affecting the valuation included yields and estimated rental value ('ERV') growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation. The deficit on revaluation was a result of softening of yields, particularly in the second half of 2016 following the outcome of the EU Referendum. Despite this, ERVs have generally continued to improve in the central London property market with significant new lettings and progress on a number of development projects where further capital expenditure has been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	The valuers used by the Group are CBRE Limited for the Central London portfolio and Savills for the remaining investment property portfolio in Scotland. They are well-known firms, with sufficient experience of the Group's market. We assessed the competence, capabilities and objectivity of the firms and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the firms remain independent and competent and that the scope of their work was appropriate. We agreed the data inputs underpinning the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them to the underlying property records held by the Group to assess the reliability, completeness and accuracy of the underlying data. The underlying property records were assessed for reliability by reviewing signed and approved lease contracts or sale/purchase contracts and by reviewing approved third party invoices. For the properties currently under development, we traced the costs included within development appraisals to quantity surveyor reports and confirmed that they were comparable to costs incurred on similar completed projects. In addition, we visited a number of the key properties in Central London that are under development to confirm the status of developments. We met with the external valuers independently of management and obtained the valuation reports to discuss and challenge the valuation methodology and assumptions. We involved our internal valuation specialists to compare the valuations of each property to our independently formed market expectations and challenged any differences. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on market indices. We identified the following assets for further testing: standing investments where the valuation fell outside the expected range; ongoing and planned development projects; high value assets valued in excess of £100m; and acquisitions. In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for Central London offices and assumptions appropriately reflected comparable market information. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate, and, whether this was robustly challenged by the external independent valuers. Variances were predominantly due to property specific factors such as new lettings at higher rents, movements in ERV or yield to reflect market transactions in close proximity or the derisking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate. We challenged the Directors and Audit Committee on the movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.

Area of focus	How our audit addressed the area of focus
Compliance with REIT guidelines Refer to page 108 (Report of the Audit Committee) and page 127 (Significant judgements, key assumptions and estimates). The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of inadvertently breaching and the Group's profit becoming subject to tax.	We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules. We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs and calculation. We involved our internal specialists to verify the accuracy of the application of the rules. We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines
Accounting for borrowings and derivatives Refer to page 108 (Report of the Audit Committee), pages 144 to 151 (Notes to the financial statements – Note 23) and page 168 (Significant accounting policies). The Group has secured and unsecured debt totalling £898.6m (2015: £895.0m). The debt includes unsecured convertible debt of £142.9m (2015: £140.2m) with an option for the Group to convert the debt when certain criteria have been met. The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2016 by external valuers and the fair value was £17.3m (2015: £17.6m). The valuation of the swaps is based on market movements which can fluctuate significantly in the year and could have a material impact on the Group financial statements. The valuation also involves judgement and therefore is considered an area of audit focus.	We obtained and reviewed each loan contract to understand the terms and conditions. Where debt covenants were identified, we re-performed management's calculations to verify compliance with the contracts. The carrying value of all debt was agreed to third party confirmations. For all derivatives, we agreed the carrying value to valuations obtained directly from the third party valuers, JC Rathbone Associates. We assessed the competence and capabilities of the external valuers by considering their qualifications and market experience. We involved our internal specialists who performed independent valuations to recalculate the value using independent market data. From our work on of the terms of the debt arrangements in place as at 31 December 2016, we consider the borrowings and derivatives to be accounted for appropriately, valued correctly in the context of materiality, and disclosed appropriately.

How we tailored the audit scope

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

The Group's properties are spread across 64 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All parts of the Group, including the joint ventures, were identified as requiring an audit of their complete financial information, either due to their size or their risk characteristics or statutory requirement. This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Materiality

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

Independent Auditor's report

continued

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

Overall Group materiality	£50.5 million (2015: £46.4 million).
How we determined it	1% of total assets.
Specific materiality	£4.0 million.
How we determined it	5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties (capped at £4.0 million).
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality for testing property and other income, administrative expenses, provisions and working capital balances.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.5 million (2015: £2.3 million) for financial statement line items where overall materiality applied and £0.4 million (2015: £0.4 million) for line items where specific materiality applied as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 84, in relation to going concern. We have nothing to report having performed our review.

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

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

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

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 77 to 84 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 116, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 107, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

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

We have no exceptions to report arising from this responsibility.

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

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

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit
Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 116, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

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

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

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

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

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

Craig Hughes
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 February 2017

Group income statement

for the year ended 31 December 2016

	Note	**2016 £m**	2015 £m
Gross property and other income	5	**193.7**	204.9
Net property and other income	5	**149.2**	148.6
Administrative expenses		**(30.9)**	(30.0)
Revaluation (deficit)/surplus	16	**(37.1)**	650.0
Profit on disposal of investment property	6	**7.5**	40.2
Profit from operations		**88.7**	808.8
Finance income	7	**–**	0.1
Finance costs		**(27.8)**	(34.9)
Loan arrangement costs written off		**–**	(0.3)
Total finance costs	7	**(27.8)**	(35.2)
Movement in fair value of derivative financial instruments		**0.3**	7.6
Financial derivative termination costs	8	**(9.0)**	(6.4)
Share of results of joint ventures	9	**2.3**	4.6
Profit before tax	10	**54.5**	779.5
Tax charge	15	**(0.9)**	(2.3)
Profit for the year		**53.6**	777.2
Attributable to:			
Equity shareholders	28	**58.7**	766.2
Non-controlling interest		**(5.1)**	11.0
		53.6	777.2
Earnings per share	37	**52.73p**	694.53p
Diluted earnings per share	37	**52.59p**	668.73p

The notes on pages 126 to 168 form part of these financial statements.

Group statement of comprehensive income

for the year ended 31 December 2016

	Note	**2016 £m**	2015 £m
Profit for the year		**53.6**	777.2
Actuarial (losses)/gains on defined benefit pension scheme	14	**(2.1)**	0.7
Revaluation (deficit)/surplus of owner-occupied property	16	**(5.5)**	1.4
Deferred tax credit/(charge) on revaluation	25	**1.3**	(0.1)
Other comprehensive (expense)/income that will not be reclassified to profit or loss		**(6.3)**	2.0
Total comprehensive income relating to the year		**47.3**	779.2
Attributable to:			
Equity shareholders		**52.4**	768.2
Non-controlling interest		**(5.1)**	11.0
		47.3	779.2

The notes on pages 126 to 168 form part of these financial statements.

Balance sheets

as at 31 December 2016

	Note	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Non-current assets					
Investment property	16	**4,803.8**	4,832.3	**–**	–
Property, plant and equipment	17	**38.1**	39.1	**3.2**	2.3
Investments	18	**36.0**	30.7	**1,186.7**	1,185.4
Deferred tax	25	**–**	–	**2.2**	3.2
Pension scheme surplus	14	**–**	1.1	**–**	1.1
Other receivables	19	**109.1**	90.7	**–**	–
		4,987.0	4,993.9	**1,192.1**	1,192.0
Current assets					
Trading property	16	**11.7**	10.5	**–**	–
Trade and other receivables	20	**38.5**	52.7	**1,513.2**	1,389.9
Cash and cash equivalents	30	**17.7**	6.5	**6.9**	5.6
		67.9	69.7	**1,520.1**	1,395.5
Total assets		**5,054.9**	5,063.6	**2,712.2**	2,587.5
Current liabilities					
Trade and other payables	21	**110.0**	124.0	**658.8**	458.3
Corporation tax liability		**1.6**	1.7	**0.1**	0.4
Provisions	22	**0.4**	0.7	**0.4**	0.7
		112.0	126.4	**659.3**	459.4
Non-current liabilities					
Borrowings	23	**922.5**	918.2	**682.7**	678.1
Derivative financial instruments	23	**17.3**	17.6	**15.5**	15.6
Provisions	22	**0.3**	0.5	**0.3**	0.5
Pension scheme deficit	14	**0.3**	–	**0.3**	–
Deferred tax	25	**3.1**	5.5	**–**	–
		943.5	941.8	**698.8**	694.2
Total liabilities		**1,055.5**	1,068.2	**1,358.1**	1,153.6
Total net assets		**3,999.4**	3,995.4	**1,354.1**	1,433.9
Equity					
Share capital	26	**5.6**	5.6	**5.6**	5.6
Share premium	27	**188.4**	186.3	**188.4**	186.3
Other reserves	27	**950.4**	952.9	**930.8**	929.1
Retained earnings	27	**2,787.9**	2,777.7	**229.3**	312.9
Equity shareholders' funds		**3,932.3**	3,922.5	**1,354.1**	1,433.9
Non-controlling interest		**67.1**	72.9	**–**	–
Total equity		**3,999.4**	3,995.4	**1,354.1**	1,433.9

The financial statements were approved by the Board of Directors and authorised for issue on 28 February 2017.

John D. Burns
Director

Damian M.A. Wisniewski
Director

The notes on pages 126 to 168 form part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2016

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Group							
At 1 January 2016	5.6	186.3	952.9	2,777.7	3,922.5	72.9	3,995.4
Profit/(loss) for the year	–	–	–	58.7	58.7	(5.1)	53.6
Other comprehensive expense	–	–	(4.2)	(2.1)	(6.3)	–	(6.3)
Share-based payments	–	1.0	1.7	3.3	6.0	–	6.0
Dividends paid	–	–	–	(48.6)	(48.6)	(0.7)	(49.3)
Scrip dividends	–	1.1	–	(1.1)	–	–	–
At 31 December 2016	**5.6**	**188.4**	**950.4**	**2,787.9**	**3,932.3**	**67.1**	**3,999.4**
At 1 January 2015	5.1	174.0	952.5	1,880.6	3,012.2	63.5	3,075.7
Profit for the year	–	–	–	766.2	766.2	11.0	777.2
Other comprehensive income	–	–	1.3	0.7	2.0	–	2.0
Transfer of owner-occupied property	–	–	6.9	(6.9)	–	–	-
Share-based payments	–	1.3	1.6	2.6	5.5	–	5.5
Bond conversion[2]	0.5	–	(9.4)	179.5	170.6	–	170.6
Dividends paid	–	–	–	(34.0)	(34.0)	(1.6)	(35.6)
Scrip dividends	–	11.0	–	(11.0)	–	–	–
At 31 December 2015	5.6	186.3	952.9	2,777.7	3,922.5	72.9	3,995.4
Company							
At 1 January 2016	5.6	186.3	929.1	312.9	1,433.9	–	1,433.9
Loss for the year	–	–	–	(35.1)	(35.1)	–	(35.1)
Other comprehensive expense	–	–	–	(2.1)	(2.1)	–	(2.1)
Share-based payments	–	1.0	1.7	3.3	6.0	–	6.0
Dividends paid	–	–	–	(48.6)	(48.6)	–	(48.6)
Scrip dividends	–	1.1	–	(1.1)	–	–	–
At 31 December 2016	**5.6**	**188.4**	**930.8**	**229.3**	**1,354.1**	**–**	**1,354.1**
At 1 January 2015	5.1	174.0	936.9	195.1	1,311.1	–	1,311.1
Loss for the year	–	–	–	(20.0)	(20.0)	–	(20.0)
Other comprehensive income	–	–	–	0.7	0.7	–	0.7
Bond conversion[2]	0.5	–	(9.4)	179.5	170.6	–	170.6
Share-based payments	–	1.3	1.6	2.6	5.5	–	5.5
Dividends paid	–	–	–	(34.0)	(34.0)	–	(34.0)
Scrip dividends	–	11.0	–	(11.0)	–	–	–
At 31 December 2015	5.6	186.3	929.1	312.9	1,433.9	–	1,433.9

[1] See note 27.
[2] See note 23.

The notes on pages 126 to 168 form part of these financial statements.

Cash flow statements

for the year ended 31 December 2016

	Note	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Operating activities					
Property income		**147.1**	145.6	**–**	–
Property expenses		**(18.0)**	(11.7)	**–**	–
Cash paid to and on behalf of employees		**(21.8)**	(21.5)	**(21.7)**	(21.5)
Other administrative expenses		**(5.6)**	(5.2)	**(6.0)**	(5.8)
Interest received		**–**	0.1	**-**	0.1
Interest paid	7	**(22.0)**	(31.4)	**(20.8)**	(19.8)
Other finance costs		**(2.3)**	(3.0)	**(1.3)**	(1.9)
Other income		**2.4**	3.1	**2.3**	3.0
Tax paid in respect of operating activities		**(2.1)**	–	**–**	–
Net cash from/(used in) operating activities		**77.7**	76.0	**(47.5)**	(45.9)
Investing activities					
Acquisition of investment properties		**(18.0)**	(246.2)	**–**	–
Capital expenditure on the property portfolio	7	**(213.5)**	(116.4)	**–**	–
Disposal of investment and trading properties		**224.7**	277.2	**–**	–
Investment in joint ventures		**(3.0)**	–	**(1.3)**	–
Purchase of property, plant and equipment		**(4.5)**	(0.9)	**(1.4)**	(0.9)
Tax received in respect of investing activities		**4.8**	–	**–**	–
Net cash used in investing activities		**(9.5)**	(86.3)	**(2.7)**	(0.9)
Financing activities					
Drawdown of new revolving bank loan		**–**	45.8	**–**	45.8
Net movement in intercompany loans		**–**	–	**107.7**	34.6
Net movement in revolving bank loans		**(103.9)**	66.3	**(103.9)**	66.3
Repayment of term loan		**–**	(70.0)	**–**	(70.0)
Drawdown of private placement notes		**104.3**	–	**104.3**	–
Financial derivative termination costs		**(9.0)**	(6.4)	**(9.0)**	(6.4)
Net proceeds of share issues	26	**1.0**	1.2	**1.0**	1.2
Dividends paid to non-controlling interest holder		**(0.8)**	(1.6)	**–**	–
Dividends paid	29	**(48.6)**	(33.3)	**(48.6)**	(33.3)
Net cash (used in)/from financing activities		**(57.0)**	2.0	**51.5**	38.2
Increase/(decrease) in cash and cash equivalents in the year		**11.2**	(8.3)	**1.3**	(8.6)
Cash and cash equivalents at the beginning of the year		**6.5**	14.8	**5.6**	14.2
Cash and cash equivalents at the end of the year	30	**17.7**	6.5	**6.9**	5.6

The notes on pages 126 to 168 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2016

1 Basis of preparation

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

Going concern

The Board continues to adopt the going concern basis in preparing these consolidated financial statements. In considering this requirement, the Directors have taken into account the following:

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

2 Changes in accounting policies

The principal accounting policies are described in note 40 and are consistent with those applied in the Group's financial statements for the year to 31 December 2015, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 December 2016 year end and had no material impact on the financial statements.

IFRS 10 (amended) – Consolidated Financial Statements;
IFRS 11 (amended) – Joint Arrangements;
IAS 1 (amended) – Presentation of Financial Statements;
IAS 16 (amended) – Property Plant and Equipment;
IAS 19 (amended) – Employee Benefits;
IAS 27 (amended) – Separate Financial Statements;
IAS 28 (amended) – Investments in Associates and Joint Ventures;
IAS 38 (amended) – Intangible Assets;
IAS 41 (amended) – Agriculture; and
Annual Improvements to IFRSs (2012 – 2014 cycle).

Standards and interpretations in issue but not yet effective

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

IFRS 2 (amended) – Share Based Payments;
IFRS 4 (amended) – Insurance Contracts;
IFRS 9 – Financial Instruments;
IFRS 16 – Leases;
IFRIC 22 – Foreign Currency Transactions and Advance Consideration;
IAS 7 (amended) – Statement of Cash Flows;
IAS 12 (amended) – Income Taxes;
IAS 40 (amended) – Investment Property; and
Annual Improvements to IFRSs (2014 – 2016 cycle).

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

3 Significant judgements, key assumptions and estimates

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

Property portfolio valuation
The Group uses the valuation carried out by its independent valuers as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. More information is provided in note 16.

Compliance with the real estate investment trust (REIT) taxation regime
As a consequence of the Group's REIT status, income and chargeable gains on the qualifying property rental business are exempt from corporation tax.

In order for the Group to remain in the REIT regime, it is subject to a number of criteria that it must meet in each accounting period. The Group comfortably met all the criteria in 2016 ensuring our REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. Such income includes development fees, interest income, sale of trading properties and our interest in unelected joint ventures.

The Group has maintained its low risk rating with HMRC due to the continued regular dialogue we maintain with them and our transparent approach.

Outstanding rent reviews
Where the outcome of an outstanding rent review is reasonably certain, rent is accrued from the rent review date based upon an estimated annual rent. This estimate is derived from knowledge of market rents for comparable properties and is only accrued where the outcome is considered to be reasonably certain.

Contingent consideration
Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.

4 Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Executive Committee comprising the six executive Directors and four senior managers) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 37. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 95% office buildings[1] by value at 31 December 2016 (2015: 94%). The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 5% (2015: 6%) represented a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

4 Segmental information (continued)

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the Strategic report. The majority of the Group's properties are located in London (West End central, West End borders and City borders), with the remainder in Scotland (Provincial).

Gross property income

	2016			2015		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	81.4	4.2	**85.6**	82.5	4.0	86.5
West End borders	17.2	–	**17.2**	15.8	0.2	16.0
City borders	48.0	0.2	**48.2**	44.6	0.2	44.8
Provincial	–	5.0	**5.0**	–	4.7	4.7
	146.6	9.4	**156.0**	142.9	9.1	152.0

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

Property portfolio

	2016			2015		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,531.5	141.1	**2,672.6**	2,601.4	180.3	2,781.7
West End borders	408.3	–	**408.3**	422.9	15.9	438.8
City borders	1,665.4	6.4	**1,671.8**	1,555.7	6.4	1,562.1
Provincial	–	97.0	**97.0**	–	96.3	96.3
	4,605.2	244.5	**4,849.7**	4,580.0	298.9	4,878.9
Fair value						
West End central	2,573.9	142.1	**2,716.0**	2,633.8	184.1	2,817.9
West End borders	426.5	–	**426.5**	442.8	15.9	458.7
City borders	1,693.6	6.3	**1,699.9**	1,571.4	6.4	1,577.8
Provincial	–	100.3	**100.3**	–	100.1	100.1
	4,694.0	248.7	**4,942.7**	4,648.0	306.5	4,954.5

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

5 Property and other income

	2016 £m	2015 £m
Gross rental income	**155.4**	148.3
Surrender premiums received	**0.1**	–
Other property income	**0.5**	3.7
Gross property income	**156.0**	152.0
Trading property sales proceeds	**12.5**	24.5
Service charge income	**22.8**	25.8
Other income	**2.4**	2.6
Gross property and other income	**193.7**	204.9

Gross rental income	**155.4**	148.3
Ground rent	**(0.7)**	(0.4)
Service charge income	**22.8**	25.8
Service charge expenses	**(24.1)**	(27.7)
	(1.3)	(1.9)
Other property costs	**(7.5)**	(7.3)
Net rental income	**145.9**	138.7
Trading property sales proceeds	**12.5**	24.5
Trading property cost of sales	**(10.6)**	(21.3)
Profit on trading property disposals	**1.9**	3.2
Write-down of trading property	**(1.6)**	–
Other property income	**0.5**	3.7
Other income	**2.4**	2.6
Other costs	**–**	(0.3)
Surrender premiums received	**0.1**	–
Reverse surrender premiums	**(0.1)**	–
Dilapidation receipts	**0.1**	0.7
Net property and other income	**149.2**	148.6

Rental income included £10.3m (2015: £11.6m) relating to rents recognised in advance of cash receipts.

In 2016, other property income related to a rights of light settlement whilst in 2015 it related to compensation received from contractors in connection with the late delivery of pre-let schemes and recognised during the year. Other income in both years related to fees and commissions earned in relation to the management of the Group's properties and was recognised in the Group income statement in accordance with the delivery of services.

6 Profit on disposal of investment property

	2016 £m	2015 £m
Investment property		
Gross disposal proceeds	**210.6**	259.3
Costs of disposal	**(2.6)**	(2.7)
Net disposal proceeds	**208.0**	256.6
Carrying value	**(198.8)**	(215.4)
Adjustment for rents recognised in advance	**(1.7)**	(1.0)
	7.5	40.2

7 Finance income and total finance costs

	2016 £m	2015 £m
Finance income		
Other	–	0.1
Finance income	–	0.1
Total finance costs		
Bank loans and overdraft	**11.8**	12.5
Non-utilisation fees	**1.2**	1.5
Unsecured convertible bonds	**3.8**	4.0
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**7.0**	4.6
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.2**	2.3
Amortisation of the fair value of the secured bonds	**(1.0)**	(1.0)
Finance lease costs	**1.0**	1.1
Other	**0.1**	0.2
Gross interest cost	**40.8**	39.9
Less: interest capitalised	**(13.0)**	(5.0)
Finance costs	**27.8**	34.9
Loan arrangement costs written off	–	0.3
Total finance costs	**27.8**	35.2

Total finance costs paid during 2016 were £35.0m (2015: £36.4m) of which £13.0m (2015: £5.0m) was capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. This £13.0m (2015: £5.0m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8 Financial derivative termination costs

In 2016, the Group incurred costs of £6.6m (2015: £4.0m) to terminate and re-coupon interest rate swaps and £2.4m (2015: £2.4m) to defer the start date of a 'forward start' interest rate swap.

9 Share of results of joint ventures

	2016 £m	2015 £m
Revaluation surplus	**1.8**	3.6
Other profit from operations after tax	**0.5**	1.0
	2.3	4.6

See note 18 for further details of the Group's joint ventures.

10 Profit before tax

	2016 £m	2015 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.4**	0.4
Contingent rent payable under property finance leases	**0.7**	0.4
Auditor's remuneration		
Audit – Group	**0.3**	0.3
Audit – subsidiaries	**0.1**	0.1

Details of the Auditor's independence are included on page 107.

11 Directors' emoluments

	2016 £m	2015 £m
Remuneration for management services	**3.9**	5.4
Share based payments	**4.1**	4.1
Post-employment benefits	**0.7**	0.6
	8.7	10.1
National insurance contributions	**1.2**	1.4
	9.9	11.5

Included within the figures shown in note 12 below are amounts recognised in the Group income statement, in accordance with IFRS 2 Share-based Payment, relating to the Directors. Of the £4.9m charged in 2016 (2015: £5.0m), £4.7m (2015: £4.9m) related to Directors' equity-settled share options and deferred bonus shares.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 85 to 103. The only key management personnel are the Directors.

12 Employees

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Staff costs, including those of Directors:				
Wages and salaries	**15.6**	15.0	**15.5**	14.9
Social security costs	**2.2**	2.2	**2.1**	2.1
Pension costs	**1.9**	1.8	**1.8**	1.9
Share-based payments expense relating to equity-settled schemes	**4.9**	5.0	**4.9**	5.0
	24.6	24.0	**24.3**	23.9

The monthly average number of employees in the Group during the year, excluding Directors, was 100 (2015: 100). The monthly average number of employees in the Company during the year, excluding Directors, was 83 (2015: 82). All were employed in administrative roles. Of the Group employees there were 13 (2015: 14) whose costs were recharged to tenants.

13 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 85 to 103, other than the employee share plan that is detailed below.

Group and Company – equity-settled option scheme

This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 85 to 103. The Directors are not entitled to any awards under this scheme.

	Exercise price £	Date from which exercisable	Expiry date	Number of options
	6.10	18/03/2012	17/03/2019	5,540
	13.20	18/03/2013	17/03/2020	3,000
	16.60	25/03/2014	24/03/2021	6,325
	17.19	12/04/2015	11/04/2022	94,750
	21.99	10/04/2016	09/04/2023	90,750
	27.39	07/04/2017	06/04/2024	97,500
Outstanding at 1 January 2015				297,865
Options granted during the year	34.65	30/03/2018	29/03/2025	76,000
Options exercised	6.10			(3,075)
Options exercised	13.20			(3,000)
Options exercised	16.60			(1,125)
Options exercised	17.19			(66,070)
Options lapsed	21.99			(4,000)
Options lapsed	27.39			(4,150)
Options lapsed during the year				(8,150)
Outstanding at 31 December 2015				292,445
Options granted during the year	31.20	24/03/2019	23/03/2026	95,250
Options exercised	6.10			(865)
Options exercised	16.60			(5,000)
Options exercised	17.19			(12,260)
Options exercised	21.99			(30,800)
Options lapsed	27.39			(16,450)
Options lapsed	34.65			(8,550)
Options lapsed	31.20			(2,000)
Options lapsed during the year				(27,000)
Outstanding at 31 December 2016				**311,770**

	31 December 2016	31 December 2015	1 January 2015
Number of shares:			
Exercisable	**74,170**	36,345	14,865
Non-exercisable	**237,600**	256,100	283,000
Weighted average exercise price of share options:			
Exercisable	**£20.57**	£16.35	£12.00
Non-exercisable	**£30.95**	£27.72	£22.24
Weighted average remaining contracted life of share options:			
Exercisable	**6.06 years**	6.05 years	5.62 years
Non-exercisable	**8.32 years**	8.23 years	8.29 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**–**	–	–
Non-exercisable	**£29.97**	£26.28	£22.71

The weighted average share price at which options were exercised during 2016 was £31.81 (2015: £36.15).

The weighted average fair value of options granted during 2016 was £6.84 (2015: £7.51).

The following information is relevant in the determination of the fair value of the options granted during 2016 and 2015 under the equity-settled employee share plan operated by the Group.

	2016	2015
Option pricing model used	**Binominal lattice**	Binominal lattice
Risk free interest rate	**0.8%**	1.1%
Volatility	**23.0%**	21.0%
Dividend yield	**1.4%**	1.1%

For both the 2016 and 2015 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

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

14 Pension costs

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group companies.

Defined contribution plan
The total expense relating to this plan in the current year was £1.0m (2015: £1.0m).

Defined benefit plan
The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions are invested in a Managed Fund Policy with F&C Fund Management Limited, Legal and General Investment Management Limited and Ruffer LLP plus annuity policies held in the name of the scheme.

The company sponsors the scheme which is a funded defined benefit arrangement. This is a separate trustee-administered fund holding the pension scheme assets to meet long-term pension liabilities for some 66 past and 4 present employees as at 31 October 2013, the last date at which the scheme actuary carried out a full valuation. The level of retirement benefit is principally based on basic salary at the last scheme anniversary of employment prior to leaving active service and is linked to changes in inflation up to retirement.

The scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was last carried out as at 31 October 2013 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the company and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

This actuarial valuation showed a deficit of £4.9m. The Company has agreed with the trustees that it will aim to eliminate the deficit over a period of seven years from 31 October 2013 by the payment of a one-off contribution of £0.5m by 31 December 2013 and annual contributions of £0.6m payable by each 31 December from 31 December 2014 to 31 December 2019 inclusive, with the deficit being cleared by 31 October 2020. In addition, and in accordance with the actuarial valuation, the company has agreed with the trustees that it will pay 65.6% of pensionable salaries including member contributions in respect of the cost of accruing benefits and will meet expenses of the plan, DIS premiums and levies to the Pension Protection Fund.

For the purposes of IAS19 the actuarial valuation as at 31 October 2013, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2016. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

Amounts included in the balance sheet

	2016 £m	2015 £m	2014 £m
Fair value of plan assets	**15.9**	13.7	14.9
Present value of defined benefit obligation	**(16.2)**	(12.6)	(15.1)
Net (liability)/asset	**(0.3)**	1.1	(0.2)

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the scheme's liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £16.2m (2015: £12.6m).

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

Reconciliation of the impact of the asset ceiling
We have assumed the application of IFRIC14 has no effect on the IAS19 figures.

14 Pension costs (continued)

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

	2016 £m	2015 £m
At 1 January	**12.6**	15.1
Current service cost	**0.1**	0.1
Interest cost	**0.5**	0.5
Actuarial losses due to scheme experience	**–**	0.1
Actuarial gains due to changes in demographic assumptions	**–**	(0.2)
Actuarial losses/(gains) due to changes in financial assumptions	**4.4**	(1.0)
Benefits paid, death in service premiums and expenses	**(1.4)**	(2.0)
At 31 December	**16.2**	12.6

There have been no plan amendments, curtailments or settlements in the year.

Reconciliation of opening and closing values of the fair value of plan assets

	2016 £m	2015 £m
At 1 January	**13.7**	14.9
Interest income	**0.5**	0.5
Return on plan assets (excluding amounts included in interest income)	**2.3**	(0.4)
Contributions by the Group	**0.7**	0.7
Benefits paid, death in service premiums and expenses	**(1.3)**	(2.0)
At 31 December	**15.9**	13.7

The actual return on the plan assets over the year was £2.8m (2015: £0.1m).

Defined benefit costs recognised in the income statement

	2016 £m	2015 £m
Current service cost	**0.1**	0.1

Amounts recognised in other comprehensive income

	2016 £m	2015 £m
Gain/(loss) on plan assets (excluding amounts recognised in net interest cost)	**2.3**	(0.4)
Experience losses arising on the defined benefit obligation	**–**	(0.1)
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	**–**	0.2
(Loss)/gain from changes in the financial assumptions underlying the present value of the defined benefit obligation	**(4.4)**	1.0
(Loss)/gain from total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	**(2.1)**	0.7
Total (loss)/gain recognised in other comprehensive income	**(2.1)**	0.7

Fair value of plan assets

	2016 £m	2015 £m	2014 £m
UK equities	**0.6**	0.5	0.6
Overseas equities	**0.6**	0.5	0.6
Government bonds	**2.6**	2.8	3.0
Cash	**0.8**	0.8	0.7
Other	**11.3**	9.1	10.0
Total assets	**15.9**	13.7	14.9

The £11.3m in the 'other' asset class is made up of holdings of £6.5m in equity-linked gilt funds and £4.8m in absolute return funds.

None of the fair values of the assets shown above include any directly held financial instruments of the Group or property occupied by, or other assets used by, the Group. All of the scheme assets have a quoted market price in an active market (with the exception of the Trustee's bank account balance) representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2016.

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

Significant actuarial assumptions

	2016 %	2015 %	2014 %
Discount rate	**2.70**	3.95	3.65
Inflation (RPI)	**3.40**	3.30	3.20
Salary increases	**4.90**	4.80	4.70
Allowance for commutation of pension for cash at retirement	**75% of Post A Day Pension**	75% of Post A Day Pension	75% of Post A Day Pension

The mortality assumptions adopted at 31 December 2016 are 80% of the standard tables S2PxA, year of birth, no age rating for males and females, projected using CMI_2015 converging to 1.25% p.a. These imply the following life expectancies:

Life expectancy at age 65

	Years
Male retiring in 2016	24.0
Female retiring in 2016	26.0
Male retiring in 2036	25.7
Female retiring in 2036	27.9

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% pa	Increase by 6.8%
Inflation (RPI)	Increase of 0.25% pa	Increase by 0.3%
Salary increases	Increase of 0.25% pa	Increase by 0.3%
Rate of mortality	Increase in life expectancy of one year	Increase by 3.6%
Allowance for commutation of pension for cash at retirement	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 1.7%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth where these are linked to inflation. The average duration of the defined benefit obligation at the year ended 31 December 2016 is 27 years.

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to the scheme's liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in the income statement. This effect would be partially offset by an increase in the value of the scheme's bond holdings.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2017 is £0.7m.

15 Tax charge

	2016 £m	2015 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**1.9**	1.8
Other adjustments in respect of prior years' tax	**0.1**	0.1
Corporation tax charge	**2.0**	1.9
Deferred tax		
Origination and reversal of temporary differences	**(0.9)**	0.4
Adjustment for changes in estimates	**(0.2)**	–
Deferred tax (credit)/charge	**(1.1)**	0.4
Tax charge	**0.9**	2.3

In addition to the tax charge of £0.9m (2015: £2.3m) that passed through the Group income statement, a deferred tax credit of £1.3m (2015: charge of £0.1m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2016 is lower (2015: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £m	2015 £m
Profit before tax	**54.5**	779.5
Expected tax charge based on the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)[1]	**10.9**	157.8
Difference between tax and accounting profit on disposals	**(1.2)**	(8.3)
REIT exempt income	**(7.8)**	(8.8)
Revaluation deficit/(surplus) attributable to REIT properties	**7.2**	(132.3)
Expenses and fair value adjustments not allowable for tax purposes	**(2.8)**	(3.6)
Capital allowances	**(5.3)**	(3.9)
Other differences	**(0.2)**	1.3
Tax charge in respect of profit for the year	**0.8**	2.2
Adjustments in respect of prior years' tax	**0.1**	0.1
	0.9	2.3

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

16 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
Group						
Carrying value						
At 1 January 2016	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9
Acquisitions	12.0	–	12.0	–	–	12.0
Capital expenditure	116.1	75.7	191.8	3.6	2.9	198.3
Interest capitalisation	10.6	2.4	13.0	–	–	13.0
Additions	138.7	78.1	216.8	3.6	2.9	223.3
Disposals	(158.1)	(40.7)	(198.8)	–	(10.2)	(209.0)
Transfers	(10.1)	–	(10.1)	–	10.1	–
Revaluation	(17.4)	(19.7)	(37.1)	(5.5)	–	(42.6)
Write-down of trading property	–	–	–	–	(1.6)	(1.6)
Movement in grossing up of headlease liabilities	–	0.7	0.7	–	–	0.7
At 31 December 2016	**3,959.9**	**843.9**	**4,803.8**	**34.2**	**11.7**	**4,849.7**
At 1 January 2015	3,464.3	576.7	4,041.0	24.8	24.0	4,089.8
Acquisitions	145.8	105.8	251.6	–	–	251.6
Capital expenditure	69.1	44.8	113.9	0.1	6.8	120.8
Interest capitalisation	4.0	0.8	4.8	–	0.2	5.0
Additions	218.9	151.4	370.3	0.1	7.0	377.4
Disposals	(214.7)	(0.7)	(215.4)	–	(20.5)	(235.9)
Transfers to joint venture	(18.7)	–	(18.7)	–	–	(18.7)
Transfers	(9.8)	–	(9.8)	9.8	–	–
Revaluation	566.8	83.2	650.0	1.4	–	651.4
Movement in grossing up of headlease liabilities	–	14.9	14.9	–	–	14.9
At 31 December 2015	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9
Adjustments from fair value to carrying value						
At 31 December 2016						
Fair value	**4,054.0**	**842.8**	**4,896.8**	**34.2**	**11.7**	**4,942.7**
Lease incentives and costs included in receivables	(94.1)	(22.8)	(116.9)	–	–	(116.9)
Grossing up of headlease liabilities	–	23.9	23.9	–	–	23.9
Carrying value	**3,959.9**	**843.9**	**4,803.8**	**34.2**	**11.7**	**4,849.7**
At 31 December 2015						
Fair value	4,095.2	810.9	4,906.1	36.1	12.3	4,954.5
Revaluation of trading property	–	–	–	–	(1.8)	(1.8)
Lease incentives and costs included in receivables	(88.4)	(8.6)	(97.0)	–	–	(97.0)
Grossing up of headlease liabilities	–	23.2	23.2	–	–	23.2
Carrying value	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9

Reconciliation of fair value

	2016 £m	2015 £m
Portfolio including the Group's share of joint ventures	**4,980.5**	4,988.5
Joint ventures	**(37.8)**	(34.0)
IFRS property portfolio	**4,942.7**	4,954.5

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2016 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £4,910.7m (2015: £4,924.8m) and other valuers at £32.0m (2015: £29.7m), giving a combined value of £4,942.7m (2015: £4,954.5m). Of the properties revalued by CBRE, £34.2m (2015: £36.1m) relating to owner-occupied property was included within property, plant and equipment, £11.7m (2015: £12.3m) was in relation to trading property and £564.2m (2015: £455.9m), included within investment property, was in relation to development properties.

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

16 Property portfolio (continued)

During the year ended 31 December 2016, the Group transferred, at market value, a property previously held for investment to trading property as it became the Group's intention to redevelop and sell this property. Any future revaluation surplus relating to the trading property will be recognised as an adjustment to EPRA net asset value, but, in accordance with IAS 2 Inventories, will not be recognised in the carrying value of the property as trading properties are stated at the lower of cost and net realisable value.

Reconciliation of revaluation (deficit)/surplus

	2016 £m	2015 £m
Total revaluation (deficit)/surplus	**(20.9)**	672.2
Share of joint ventures	**(1.8)**	(3.6)
Lease incentives and costs	**(21.5)**	(16.4)
Trading property revaluation surplus	**–**	(0.3)
Other	**–**	(0.5)
IFRS revaluation (deficit)/surplus	**(44.2)**	651.4
Reported in the:		
Revaluation (deficit)/surplus	**(37.1)**	650.0
Write-down in trading property	**(1.6)**	–
Group income statement	**(38.7)**	650.0
Group statement of comprehensive income	**(5.5)**	1.4
	(44.2)	651.4

Valuation process

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

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

Valuation techniques

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

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

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

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2016 or 2015.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a loss of £37.1m (2015: gain of £650.0m) and are presented in the Group income statement in the line item 'revaluation (deficit)/surplus'. The revaluation deficit for the owner-occupied property of £5.5m (2015: surplus of £1.4m) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2016 and 2015 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2016 and 31 December 2015, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m)[2]	2,716.0	440.1	1,724.1	67.8	32.5	4,980.5
Area ('000 sq ft)	3,040	516	2,082	343	–	5,981
Range of unobservable inputs[3]:						
Gross ERV (per sq ft pa)						
Minimum	£13	£40	£10	£8	n/a[1]	
Maximum	£176	£55	£62	£15	n/a[1]	
Weighted average	£50	£41	£47	£14	n/a[1]	
Net initial yield						
Minimum	0.0%	3.3%	0.0%	6.3%	0.0%	
Maximum	4.9%	4.5%	4.5%	12.3%	9.8%	
Weighted average	2.8%	4.2%	2.4%	6.4%	1.7%	
Reversionary yield						
Minimum	2.4%	5.2%	3.9%	6.6%	0.0%	
Maximum	9.5%	5.8%	5.9%	14.3%	9.8%	
Weighted average	4.9%	5.2%	5.1%	6.7%	1.8%	
True equivalent yield (EPRA basis)						
Minimum	2.3%	5.2%	4.4%	6.8%	9.3%	
Maximum	6.2%	5.4%	5.4%	14.6%	10.9%	
Weighted average	4.6%	5.3%	5.0%	6.9%	10.5%	

1 There is no calculation of gross ERV per sq ft pa. The land totals 5,235 acres.
2 Includes the Group's share of joint ventures.
3 Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.

Sensitivity of measurement to variations in the significant unobservable inputs

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

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

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

A sensitivity analysis was performed to ascertain the impact on the fair value of a 25 basis point shift in true equivalent yield and a £2.50 psf shift in ERV.

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.2%)	(4.5%)	(4.8%)	(3.5%)	(2.3%)	(4.9%)
-25bp	5.8%	5.0%	5.3%	3.8%	2.4%	5.5%
ERV						
+£2.50 psf	5.0%	6.0%	5.4%	17.4%	–	5.2%
-£2.50 psf	(5.0%)	(6.0%)	(5.4%)	(17.4%)	–	(5.2%)

Historic cost

	2016 £m	2015 £m
Investment property	**2,838.5**	2,732.3
Owner-occupied property	**14.1**	7.7
Trading property	**18.4**	9.9
Total property portfolio	**2,871.0**	2,749.9

17 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2016	36.1	1.5	1.5	39.1
Additions	3.6	–	1.3	4.9
Depreciation	–	–	(0.4)	(0.4)
Revaluation	(5.5)	–	–	(5.5)
At 31 December 2016	**34.2**	**1.5**	**2.4**	**38.1**
At 1 January 2015	24.8	1.5	0.9	27.2
Additions	0.1	–	0.9	1.0
Depreciation	–	–	(0.3)	(0.3)
Transfers	9.8	–	–	9.8
Revaluation	1.4	–	–	1.4
At 31 December 2015	36.1	1.5	1.5	39.1
Net book value				
Cost or valuation	34.2	1.5	4.8	40.5
Accumulated depreciation	–	–	(2.4)	(2.4)
At 31 December 2016	**34.2**	**1.5**	**2.4**	**38.1**
Net book value				
Cost or valuation	36.1	1.5	3.5	41.1
Accumulated depreciation	–	–	(2.0)	(2.0)
At 31 December 2015	36.1	1.5	1.5	39.1
Company				
At 1 January 2016	–	0.9	1.4	2.3
Additions	–	–	1.3	1.3
Depreciation	–	–	(0.4)	(0.4)
At 31 December 2016	**–**	**0.9**	**2.3**	**3.2**
At 1 January 2015	–	0.9	0.7	1.6
Additions	–	–	1.0	1.0
Depreciation	–	–	(0.3)	(0.3)
At 31 December 2015	–	0.9	1.4	2.3
Net book value				
Cost or valuation	–	0.9	4.9	5.8
Accumulated depreciation	–	–	(2.6)	(2.6)
At 31 December 2016	**–**	**0.9**	**2.3**	**3.2**
Net book value				
Cost or valuation	–	0.9	3.6	4.5
Accumulated depreciation	–	–	(2.2)	(2.2)
At 31 December 2015	–	0.9	1.4	2.3

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in October 2016 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 31 December 2016 was £1.5m (2015: £1.5m) and £0.9m (2015: £0.9m) in the Company. See note 16 for the historic cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Investments

Group

The Group has a 50% interest in two joint ventures, Primister Limited and Prescot Street Limited Partnership ('PSLP'). In 2015, 9 and 16 Prescot Street E1 was transferred from a Group company into PSLP.

	2016 £m	2015 £m
At 1 January	**30.7**	7.4
Transfer from investment property (see note 16)	**–**	18.7
Additions	**3.0**	–
Share of results of joint ventures (see note 9)	**2.3**	4.6
At 31 December	**36.0**	30.7

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

	2016		2015	
	Joint ventures £m	**Group share £m**	Joint ventures £m	Group share £m
Non-current assets	**75.3**	**37.7**	67.6	33.9
Current assets	**7.0**	**3.5**	2.6	1.3
Current liabilities	**(5.4)**	**(2.7)**	(1.3)	(0.6)
Non-current liabilities	**(48.5)**	**(24.3)**	(45.4)	(22.7)
Net assets	**28.4**	**14.2**	23.5	11.9
Loans provided to joint ventures		**21.8**		18.8
Total investment in joint ventures		**36.0**		30.7
Income	**5.2**	**2.6**	10.1	5.0
Expenses	**(0.6)**	**(0.3)**	(0.9)	(0.4)
Profit for the year	**4.6**	**2.3**	9.2	4.6

Company

	Subsidiaries £m	Joint ventures £m	Total £m
At 1 January 2015	1,184.6	–	1,184.6
Additions	0.8	–	0.8
At 31 December 2015	1,185.4	–	1,185.4
Additions	–	1.3	1.3
At 31 December 2016	**1,185.4**	**1.3**	**1,186.7**

At 31 December 2016, the carrying value of the investment in wholly owned subsidiaries was reviewed in accordance with IAS 36 Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement.

19 Other receivables (non-current)

	Group 2016 £m	2015 £m	**Company 2016 £m**	2015 £m
Prepayments and accrued income	**105.4**	87.0	**–**	–
Other	**3.7**	3.7	**–**	–
	109.1	90.7	**–**	–

Prepayments and accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £11.5m (2015: £10.0m), which was included as current assets within trade and other receivables, these amounts totalled £116.9m at 31 December 2016 (2015: £97.0m).

20 Trade and other receivables

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Trade receivables	**5.1**	2.4	**–**	–
Amounts owed by subsidiaries	**–**	–	**1,512.0**	1,388.0
Other receivables	**2.7**	5.4	**1.0**	0.1
Prepayments	**15.5**	14.9	**0.2**	1.4
Other taxes	**–**	16.5	**–**	–
Accrued income	**15.2**	13.5	**–**	0.4
	38.5	52.7	**1,513.2**	1,389.9

	2016 £m	2015 £m
Group trade receivables are split as follows:		
less than three months due	**5.1**	2.4
	5.1	2.4

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

	2016 £m	2015 £m
At 1 January	**0.3**	0.6
Released	**–**	(0.3)
At 31 December	**0.3**	0.3
The provision for bad debts is split as follows:		
less than six months due	**0.3**	0.3
	0.3	0.3

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

21 Trade and other payables

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Trade payables	**2.0**	0.2	**–**	–
Amounts owed to subsidiaries	**–**	–	**647.0**	445.4
Other payables	**16.7**	39.9	**1.2**	0.7
Other taxes	**6.5**	–	**0.8**	2.1
Accruals	**45.9**	49.1	**9.7**	10.0
Deferred income	**38.9**	34.8	**0.1**	0.1
	110.0	124.0	**658.8**	458.3

22 Provisions

	Deferred bonus shares £m	National insurance on share-based payments £m	Total £m
Group			
At 1 January 2016	–	1.2	1.2
Provided in the income statement	–	0.2	0.2
Utilised in year	–	(0.7)	(0.7)
At 31 December 2016	**–**	**0.7**	**0.7**
Due within one year	–	0.4	0.4
Due after one year	–	0.3	0.3
	–	**0.7**	**0.7**
At 1 January 2015	0.2	1.3	1.5
Provided in the income statement	–	0.8	0.8
Provided in reserves	0.9	–	0.9
Utilised in year	(1.1)	(0.9)	(2.0)
At 31 December 2015	–	1.2	1.2
Due within one year	–	0.7	0.7
Due after one year	–	0.5	0.5
	–	1.2	1.2
Company			
At 1 January 2016	–	1.2	1.2
Provided in the income statement	–	0.2	0.2
Utilised in year	–	(0.7)	(0.7)
At 31 December 2016	**–**	**0.7**	**0.7**
Due within one year	–	0.4	0.4
Due after one year	–	0.3	0.3
	–	**0.7**	**0.7**
At 1 January 2015	0.2	1.3	1.5
Provided in the income statement	–	0.8	0.8
Provided in reserves	0.9	–	0.9
Utilised in year	(1.1)	(0.9)	(2.0)
At 31 December 2015	–	1.2	1.2
Due within one year	–	0.7	0.7
Due after one year	–	0.5	0.5
	–	1.2	1.2

Provisions are made for those parts of the bonuses which are to be deferred in shares (see report of the Remuneration Committee). National insurance is payable on gains made by employees on the exercise of share-based payments granted to them. The eventual liability to national insurance is dependent on:

- the market price of the Company's shares at the date of exercise;
- the number of equity instruments that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

23 Borrowings and derivative financial instruments

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Non-current liabilities				
2.75% unsecured convertible bonds 2016	**–**	–	**–**	–
1.125% unsecured convertible bonds 2019	**142.9**	140.2	**–**	–
6.5% secured bonds 2026	**187.9**	188.9	**–**	–
3.46% unsecured private placement notes 2028	**29.8**	–	**29.8**	–
4.41% unsecured private placement notes 2029	**24.8**	24.8	**24.8**	24.8
3.57% unsecured private placement notes 2031	**74.5**	–	**74.5**	–
4.68% unsecured private placement notes 2034	**74.3**	74.3	**74.3**	74.3
3.99% secured loan 2024	**82.1**	82.0	**82.1**	82.0
Unsecured bank loans	**254.3**	356.8	**254.3**	356.8
Secured bank loans	**28.0**	28.0	**–**	–
Intercompany loan	**–**	–	**142.9**	140.2
Gross debt	**898.6**	895.0	**682.7**	678.1
Leasehold liabilities	**23.9**	23.2	**–**	–
Borrowings	**922.5**	918.2	**682.7**	678.1
Derivative financial instruments expiring in greater than one year	**17.3**	17.6	**15.5**	15.6
Total borrowings and derivative financial instruments	**939.8**	935.8	**698.2**	693.7
Reconciliation of borrowings to net debt:				
Borrowings	**922.5**	918.2	**682.7**	678.1
Cash and cash equivalents	**(17.7)**	(6.5)	**(6.9)**	(5.6)
Net debt	**904.8**	911.7	**675.8**	672.5

2.75% unsecured convertible bonds 2016

In June 2011 the Group issued its first convertible bonds which paid a coupon of 2.75% and had a conversion price of £22.22 per share. In December 2014, the Group issued a notice for the early redemption of these bonds. All the bondholders opted to convert in January 2015 with the result that 7,875,776 new ordinary shares of 5p each were issued at the conversion price of £22.22 per share, and the bonds were subsequently cancelled. Of the proceeds of £175.0m received from the bondholders, £0.5m was credited to share capital and £174.5m was credited to retained earnings. The premium on issue was not required to be transferred to a share premium account because merger relief was available due to the structure of the transaction. The ordinary shares issued on conversion of the bonds by Derwent London plc were exchanged for exchangeable redeemable preference shares ('ERPS') in the subsidiary company which issued the bonds, and the redemption of the ERPS converted the merger reserve into a realised profit. The £9.4m that had been credited to other reserves on issue was transferred to retained earnings on conversion of the bonds. In addition, unamortised amounts totalling £4.3m due to early redemption have been charged to retained earnings. After £0.1m of transaction costs, the total taken to retained earnings on conversion was, therefore, £179.5m.

1.125% unsecured convertible bonds 2019

In July 2013 the Group issued its second convertible bonds. The unsecured instrument pays a coupon of 1.125% until July 2019 or its conversion date, if earlier. The initial conversion price was set at £33.35 per share. In accordance with IAS 32, the equity and debt components of the bonds are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.67%. As a result, £137.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £12.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £3.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bonds. The issue costs apportioned to equity of £0.3m have not been amortised. The fair value was determined by the ask-price of £105.38 per £100 as at 31 December 2016 (2015: £119.62 per £100). The carrying value at 31 December 2016 was £142.9m (2015: £140.2m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	150.0
Fair value adjustment on issue allocated to equity	(12.6)
Debt component on issue	137.4
Unamortised issue costs	(1.5)
Amortisation of fair value adjustment	7.0
Carrying amount included in borrowings	142.9

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2016 was determined by the ask-price of £128.91 per £100 (2015: £124.10 per £100). The carrying value at 31 December 2016 was £187.9m (2015: £188.9m).

3.46% unsecured private placement notes 2028 and 3.57% unsecured private placement notes 2031

In February 2016, the Group arranged unsecured private placement notes, comprising £30m for 12 years and £75m for 15 years. The funds were drawn on 4 May 2016. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins. The references were a 6% 2028 gilt and a 4.75% 2030 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2016 were £29.8m (2015: £nil) and £74.5m (2015: £nil), respectively.

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins. The references were a 6% 2028 gilt and a 4.25% 2032 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2016 were £24.8m (2015: £24.8m) and £74.3m (2015: £74.3m), respectively.

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilt plus an implied margin. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2016 was £82.1m (2015: £82.0m).

Bank borrowings

In 2016, the maturity of £450m of the £550m facility arranged in September 2013 was extended by one year to 2022, with the remaining £100m still maturing in 2021.

In July 2015, a new fully revolving £75m minimum five-year unsecured loan facility was completed. An existing £90m secured bank facility from the same lender was cancelled at the same time. In 2016, the maturity of this facility was extended by one year to 2021.

As all main corporate facilities were refinanced or amended in 2014 and 2015, the fair values of the Group's bank loans are deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2016	**–**	**–**	**–**	**–**	**144.0**	**221.5**	**365.5**
At 31 December 2015	–	–	–	–	28.5	234.0	262.5
Company							
At 31 December 2016	**–**	**–**	**–**	**–**	**144.0**	**221.5**	**365.5**
At 31 December 2015	–	–	–	–	28.5	234.0	262.5

Intercompany loans

The terms of the intercompany loan in the Company mirror those of the unsecured convertible bonds 2019. As with the bonds, debt and equity components of the intercompany loan have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value at 31 December 2016 was £142.9m (2015: £140.2m).

23 Borrowings and derivative financial instruments (continued)

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2016 for the period to the contracted expiry dates.

The Group also has a £70m forward starting interest rate swap effective from 29 March 2017. This swap is not included in the 31 December 2016 figures in the table below, but the financial impact from the effective date onwards is included in the relevant tables in this note.

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

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2016						
Interest rate swaps	243.0	1.82	4.6	215.0	1.60	4.9
At 31 December 2015						
Interest rate swaps	253.0	2.44	4.6	255.0	2.30	4.8

Secured and unsecured debt

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Secured				
6.5% secured bonds 2026	**187.9**	188.9	**–**	–
3.99% secured loan 2024	**82.1**	82.0	**82.1**	82.0
Secured bank loans	**28.0**	28.0	**–**	–
	298.0	298.9	**82.1**	82.0
Unsecured				
1.125% unsecured convertible bonds 2019	**142.9**	140.2	**–**	–
3.46% unsecured private placement notes 2028	**29.8**	–	**29.8**	–
4.41% unsecured private placement notes 2029	**24.8**	24.8	**24.8**	24.8
3.57% unsecured private placement notes 2031	**74.5**	–	**74.5**	–
4.68% unsecured private placement notes 2034	**74.3**	74.3	**74.3**	74.3
Unsecured bank loans	**254.3**	356.8	**254.3**	356.8
Intercompany loans	**–**	–	**142.9**	140.2
	600.6	596.1	**600.6**	596.1
Gross debt	**898.6**	895.0	**682.7**	678.1

At 31 December 2016, the Group's 3.99% secured loan 2024 was secured by a fixed charge over £191.7m (2015: £255.5m) of the Group's properties and £10.0m (2015: £nil) of cash on deposit. The Group's secured bank loan was secured by a fixed charge over £129.4m (2015: £144.8m) of the Group's properties. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contain £844.4m (2015: £845.1m) of the Group's properties.

At 31 December 2016, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £191.7m (2015: £255.5m) of the Group's properties and £10.0m (2015: £nil) of cash on deposit.

Fixed interest rate and hedged debt

At 31 December 2015, the Group's fixed rate and hedged debt included the unsecured convertible bonds 2019, the secured bonds 2026, a secured loan 2024, the unsecured private placement notes 2029 and 2034 and the hedged bank debt. Additionally, at 31 December 2016 the Group's fixed rate and hedged debt included the unsecured private placement notes 2028 and 2031. At 31 December 2016 and 2015, the Company's fixed rate debt comprised a secured loan 2024, the unsecured private placement notes 2029 and 2034, the hedged bank debt and the intercompany loans. Additionally, at 31 December 2016 the Company's fixed rate and hedged debt included the unsecured private placement notes 2028 and 2031.

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's gross debt was:

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average interest rate[1] %	Weighted average life Years
Group						
At 31 December 2016						
1.125% unsecured convertible bonds 2019	–	–	142.9	142.9	2.67	2.6
6.5% secured bonds 2026	–	–	187.9	187.9	6.50	9.2
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	11.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	12.0
3.57% unsecured private placement notes 2031	–	–	74.5	74.5	3.57	14.3
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	17.0
3.99% secured loan 2024	–	–	82.1	82.1	3.99	7.8
Unsecured bank loans	43.6	210.7	–	254.3	2.68	5.0
Secured bank loans	–	28.0	–	28.0	4.25	1.5
	43.6	**238.7**	**616.3**	**898.6**	**3.90**	**7.7**
At 31 December 2015						
1.125% unsecured convertible bonds 2019	–	–	140.2	140.2	2.67	3.6
6.5% secured bonds 2026	–	–	188.9	188.9	6.50	10.2
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	13.0
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	18.0
3.99% secured loan 2024	–	–	82.0	82.0	3.99	8.8
Unsecured bank loans	135.3	221.5	–	356.8	2.99	5.0
Secured bank loans	–	28.0	–	28.0	4.30	2.5
	135.3	249.5	510.2	895.0	3.93	7.3
Company						
At 31 December 2016						
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	11.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	12.0
3.57% unsecured private placement notes 2031	–	–	74.5	74.5	3.57	14.3
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	17.0
3.99% secured loan 2024	–	–	82.1	82.1	3.99	7.8
Unsecured bank loans	43.6	210.7	–	254.3	2.68	5.0
Intercompany loans	–	–	142.9	142.9	2.67	2.6
	43.6	**210.7**	**428.4**	**682.7**	**3.24**	**7.6**
At 31 December 2015						
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	13.0
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	18.0
3.99% secured loan 2024	–	–	82.0	82.0	3.99	8.8
Unsecured bank loans	135.3	221.5	–	356.8	2.99	5.0
Intercompany loans	–	–	140.2	140.2	2.67	3.6
	135.3	221.5	321.3	678.1	3.27	6.8

[1] The weighted average interest rates are based on the nominal amounts of the debt facilities.

23 Borrowings and derivative financial instruments (continued)

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2016							
1.125% unsecured convertible bonds 2019	–	–	150.0	–	–	–	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
3.46% unsecured private placement notes 2028	–	–	–	–	–	30.0	30.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
3.57% unsecured private placement notes 2031	–	–	–	–	–	75.0	75.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loans	–	–	–	–	31.0	228.5	259.5
Secured bank loans	–	28.0	–	–	–	–	28.0
Total on maturity	–	28.0	150.0	–	31.0	691.5	900.5
Leasehold liabilities	1.2	1.2	1.2	1.2	1.2	237.0	243.0
Interest on gross debt	30.8	31.1	31.4	30.2	30.3	146.7	300.5
Effect of interest rate swaps	5.2	5.3	4.0	1.7	0.9	0.2	17.3
Gross loan commitments	**37.2**	**65.6**	**186.6**	**33.1**	**63.4**	**1,075.4**	**1,461.3**
At 31 December 2015							
1.125% unsecured convertible bonds 2019	–	–	–	150.0	–	–	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loans	–	–	–	–	46.5	316.0	362.5
Secured bank loans	–	–	28.0	–	–	–	28.0
Total on maturity	–	–	28.0	150.0	46.5	674.0	898.5
Leasehold liabilities	1.1	1.2	1.2	1.2	1.2	144.8	150.7
Interest on gross debt	29.8	31.7	32.6	32.9	31.2	132.9	291.1
Effect of interest rate swaps	5.6	4.6	3.5	2.5	0.8	0.2	17.2
Gross loan commitments	36.5	37.5	65.3	186.6	79.7	951.9	1,357.5

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
At 31 December 2016						
Maturing in:						
< 1 year	37.2	(30.8)	(5.2)	(1.2)	–	–
1 to 2 years	65.6	(31.1)	(5.3)	(1.2)	–	28.0
2 to 3 years	186.6	(31.4)	(4.0)	(1.2)	(7.1)	142.9
3 to 4 years	33.1	(30.2)	(1.7)	(1.2)	–	–
4 to 5 years	63.4	(30.3)	(0.9)	(1.2)	(1.4)	29.6
> 5 years	1,075.4	(146.7)	(0.2)	(213.1)	6.6	722.0
	1,461.3	**(300.5)**	**(17.3)**	**(219.1)**	**(1.9)**	**922.5**
At 31 December 2015						
Maturing in:						
< 1 year	36.5	(29.8)	(5.6)	(1.1)	–	–
1 to 2 years	37.5	(31.7)	(4.6)	(1.2)	–	–
2 to 3 years	65.3	(32.6)	(3.5)	(1.2)	–	28.0
3 to 4 years	186.6	(32.9)	(2.5)	(1.2)	(9.8)	140.2
4 to 5 years	79.7	(31.2)	(0.8)	(1.2)	(0.6)	45.9
> 5 years	951.9	(132.9)	(0.2)	(121.6)	6.9	704.1
	1,357.5	(291.1)	(17.2)	(127.5)	(3.5)	918.2

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2016							
3.46% unsecured private placement notes 2028	–	–	–	–	–	30.0	30.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
3.57% unsecured private placement notes 2031	–	–	–	–	–	75.0	75.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loans	–	–	–	–	31.0	228.5	259.5
Intercompany loans	–	–	150.0	–	–	–	150.0
Total on maturity	–	–	150.0	–	31.0	516.5	697.5
Interest on debt	19.1	19.5	20.1	18.8	18.9	95.5	191.9
Effect of interest rate swaps	4.4	4.4	3.9	1.7	0.9	0.2	15.5
Gross loan commitments	**23.5**	**23.9**	**174.0**	**20.5**	**50.8**	**612.2**	**904.9**
At 31 December 2015							
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loans	–	–	–	–	46.5	316.0	362.5
Intercompany loans	–	–	–	150.0	–	–	150.0
Total on maturity	–	–	–	150.0	46.5	499.0	695.5
Interest on debt	17.9	19.7	20.8	21.6	19.8	70.4	170.2
Effect of interest rate swaps	4.8	4.0	3.0	2.4	0.8	0.2	15.2
Gross loan commitments	22.7	23.7	23.8	174.0	67.1	569.6	880.9

Reconciliation to borrowings:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Company						
At 31 December 2016						
Maturing in:						
< 1 year	23.5	(19.1)	(4.4)	–	–	–
1 to 2 years	23.9	(19.5)	(4.4)	–	–	–
2 to 3 years	174.0	(20.1)	(3.9)	–	(7.1)	142.9
3 to 4 years	20.5	(18.8)	(1.7)	–	–	–
4 to 5 years	50.8	(18.9)	(0.9)	–	(1.4)	29.6
> 5 years	612.2	(95.5)	(0.2)	–	(6.3)	510.2
	904.9	**(191.9)**	**(15.5)**	**–**	**(14.8)**	**682.7**
At 31 December 2015						
Maturing in:						
< 1 year	22.7	(17.9)	(4.8)	–	–	–
1 to 2 years	23.7	(19.7)	(4.0)	–	–	–
2 to 3 years	23.8	(20.8)	(3.0)	–	–	–
3 to 4 years	174.0	(21.6)	(2.4)	–	(9.8)	140.2
4 to 5 years	67.1	(19.8)	(0.8)	–	(0.6)	45.9
> 5 years	569.6	(70.4)	(0.2)	–	(7.0)	492.0
	880.9	(170.2)	(15.2)	–	(17.4)	678.1

23 Borrowings and derivative financial instruments (continued)

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2016 Receivable £m	2016 Payable £m	2015 Receivable £m	2015 Payable £m
Group				
Maturing in:				
< 1 year	**1.3**	**(6.5)**	2.7	(8.3)
1 to 2 years	**1.9**	**(7.2)**	4.4	(9.0)
2 to 3 years	**2.5**	**(6.5)**	5.5	(9.0)
3 to 4 years	**2.0**	**(3.7)**	5.0	(7.5)
4 to 5 years	**1.6**	**(2.5)**	2.7	(3.5)
> 5 years	**1.9**	**(2.1)**	2.9	(3.1)
Gross contractual cash flows	**11.2**	**(28.5)**	23.2	(40.4)
Company				
Maturing in:				
< 1 year	**1.1**	**(5.5)**	2.5	(7.3)
1 to 2 years	**1.8**	**(6.2)**	4.0	(8.0)
2 to 3 years	**2.3**	**(6.2)**	5.0	(8.0)
3 to 4 years	**2.0**	**(3.7)**	4.9	(7.3)
4 to 5 years	**1.6**	**(2.5)**	2.7	(3.5)
> 5 years	**1.9**	**(2.1)**	2.9	(3.1)
Gross contractual cash flows	**10.7**	**(26.2)**	22.0	(37.2)

Financial instruments – risk management

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

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

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 60 to 65.

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

Principal financial instruments

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

General objectives, policies and processes

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

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

Credit risk

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

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time. The quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 20.

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

Market risk

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

The Group monitors its interest rate exposure on a regular basis. Sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.2m (2015: £0.7m) or a decrease of £0.2m (2015: £0.7m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2016, the proportion of fixed debt held by the Group was above this range at 95% (2015: 85%) following a property disposal in December. During both 2016 and 2015, the Group's borrowings at variable rate were denominated in sterling.

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

Liquidity risk

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

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

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

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

Capital disclosures

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined in the list of definitions on page 173 and are derived in note 39.

24 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	17.7	–	17.7
Other assets – current[1]	–	23.0	–	23.0
	–	40.7	–	40.7
Financial liabilities				
1.125% unsecured convertible bonds 2019	–	–	(142.9)	(142.9)
6.5% secured bonds 2026	–	–	(187.9)	(187.9)
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.5)	(74.5)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(82.1)	(82.1)
Bank borrowings due after one year	–	–	(282.3)	(282.3)
Leasehold liabilities	–	–	(23.9)	(23.9)
Derivative financial instruments	(17.3)	–	–	(17.3)
Other liabilities – current[2]	–	–	(64.6)	(64.6)
	(17.3)	–	(987.1)	(1,004.4)
At 31 December 2016	**(17.3)**	**40.7**	**(987.1)**	**(963.7)**
Financial assets				
Cash and cash equivalents	–	6.5	–	6.5
Other assets – current[1]	–	21.3	–	21.3
	–	27.8	–	27.8
Financial liabilities				
1.125% unsecured convertible bonds 2019	–	–	(140.2)	(140.2)
6.5% secured bonds 2026	–	–	(188.9)	(188.9)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(82.0)	(82.0)
Bank borrowings due after one year	–	–	(384.8)	(384.8)
Leasehold liabilities	–	–	(23.2)	(23.2)
Derivative financial instruments	(17.6)	–	–	(17.6)
Other liabilities – current[2]	–	–	(89.2)	(89.2)
	(17.6)	–	(1,007.4)	(1,025.0)
At 31 December 2015	(17.6)	27.8	(1,007.4)	(997.2)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	6.9	–	6.9
Other assets – current[1]	–	1,513.0	–	1,513.0
	–	1,519.9	–	1,519.9
Financial liabilities				
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.5)	(74.5)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(82.1)	(82.1)
Bank borrowings due after one year	–	–	(254.3)	(254.3)
Intercompany loans	–	–	(142.9)	(142.9)
Derivative financial instruments	(15.5)	–	–	(15.5)
Other liabilities – current[2]	–	(647.0)	(10.9)	(657.9)
	(15.5)	(647.0)	(693.6)	(1,356.1)
At 31 December 2016	**(15.5)**	**872.9**	**(693.6)**	**163.8**
Financial assets				
Cash and cash equivalents	–	5.6	–	5.6
Other assets – current[1]	–	1,388.5	–	1,388.5
	–	1,394.1	–	1,394.1
Financial liabilities				
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(82.0)	(82.0)
Bank borrowings due after one year	–	–	(356.8)	(356.8)
Intercompany loans	–	–	(140.2)	(140.2)
Derivative financial instruments	(15.6)	–	–	(15.6)
Other liabilities – current[2]	–	(445.4)	(10.7)	(456.1)
	(15.6)	(445.4)	(688.8)	(1,149.8)
At 31 December 2015	(15.6)	948.7	(688.8)	244.3

[1] In 2016, other assets includes all amounts shown as trade and other receivables in note 20 except prepayments and sales and social security taxes of £15.5m (2015: £31.4m) for the Group and £0.2m (2015: £1.4m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] In 2016, other liabilities for the Group include all amounts shown as trade and other payables in note 21 except deferred income and sales and social security taxes of £45.4m (2015: £34.8m) for the Group and of £0.9m (2015: £2.2m) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to borrowings and derivative financial instruments:

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Net financial assets and liabilities	**(963.7)**	(997.2)	**163.8**	244.3
Other assets – current	**(23.0)**	(21.3)	**(1,513.0)**	(1,388.5)
Other liabilities – current	**64.6**	89.2	**657.9**	456.1
Cash and cash equivalents	**(17.7)**	(6.5)	**(6.9)**	(5.6)
Borrowings and derivative financial instruments	**(939.8)**	(935.8)	**(698.2)**	(693.7)

24 Financial assets and liabilities and fair values (continued)

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 23.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2016					
1.125% unsecured convertible bonds 2019	(142.9)	(152.4)	–	–	Level 1
6.5% secured bonds 2026	(187.9)	(225.6)	–	–	Level 1
3.46% unsecured private placement notes 2028	(29.8)	(30.8)	(29.8)	(30.8)	Level 2
4.41% unsecured private placement notes 2029	(24.8)	(28.8)	(24.8)	(28.8)	Level 2
3.57% unsecured private placement notes 2031	(74.5)	(75.6)	(74.5)	(75.6)	Level 2
4.68% unsecured private placement notes 2034	(74.3)	(88.5)	(74.3)	(88.5)	Level 2
3.99% secured loan 2024	(82.1)	(88.2)	(82.1)	(88.2)	Level 2
Bank borrowings due after one year	(282.3)	(287.5)	(254.3)	(259.5)	Level 2
Intercompany loan	–	–	(142.9)	(152.4)	Level 2
Derivative financial instruments	(17.3)	(17.3)	(15.5)	(15.5)	Level 2
	(915.9)	(994.7)	(698.2)	(739.3)	
Amounts not fair valued:					
Cash and cash equivalents	17.7		6.9		
Other assets – current	23.0		1,513.0		
Leasehold liabilities	(23.9)		–		
Other liabilities – current	(64.6)		(657.9)		
Net financial assets and liabilities	**(963.7)**		**163.8**		
At 31 December 2015					
1.125% unsecured convertible bonds 2019	(140.2)	(171.7)	–	–	Level 1
6.5% secured bonds 2026	(188.9)	(217.2)	–	–	Level 1
4.41% unsecured private placement notes 2029	(24.8)	(27.2)	(24.8)	(27.2)	Level 2
4.68% unsecured private placement notes 2034	(74.3)	(81.9)	(74.3)	(81.9)	Level 2
3.99% secured loan 2024	(82.0)	(83.3)	(82.0)	(83.3)	Level 2
Bank borrowings due after one year	(384.8)	(390.5)	(356.8)	(362.5)	Level 2
Intercompany loan	–	–	(140.2)	(171.7)	Level 2
Derivative financial instruments	(17.6)	(17.6)	(15.6)	(15.6)	Level 2
	(912.6)	(989.4)	(693.7)	(742.2)	
Amounts not fair valued:					
Cash and cash equivalents	6.5		5.6		
Other assets – current	21.3		1,388.5		
Leasehold liabilities	(23.2)		–		
Other liabilities – current	(89.2)		(456.1)		
Net financial assets and liabilities	(997.2)		244.3		

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2016 or 2015.

25 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2016	8.7	(3.2)	5.5
(Credited)/charged to the income statement	(1.8)	0.9	(0.9)
Change in tax rates in the income statement	(0.3)	0.1	(0.2)
Credited to other comprehensive income	(1.2)	–	(1.2)
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
At 31 December 2016	**5.3**	**(2.2)**	**3.1**
At 1 January 2015	7.2	(2.2)	5.0
Charged/(credited) to the income statement	1.4	(1.0)	0.4
Charged to other comprehensive income	0.1	–	0.1
At 31 December 2015	8.7	(3.2)	5.5
Company			
At 1 January 2016	–	(3.2)	(3.2)
Charged to the income statement	–	0.9	0.9
Change in tax rates in the income statement	–	0.1	0.1
At 31 December 2016	**–**	**(2.2)**	**(2.2)**
At 1 January 2015	–	(2.2)	(2.2)
Credited to the income statement	–	(1.0)	(1.0)
At 31 December 2015	–	(3.2)	(3.2)

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

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

26 Equity

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2015	102,784,968
Issued as a result of scrip dividends	316,314
Issued as a result of awards vesting under the Group's Performance Share Plan	121,773
Issued as a result of the exercise of share options[1]	73,270
Issued as a result of the conversion of the convertible bonds	7,875,776
At 31 December 2015	111,172,101
Issued as a result of scrip dividends	33,884
Issued as a result of awards vesting under the Group's Performance Share Plan	134,177
Issued as a result of the exercise of share options[1]	49,675
At 31 December 2016	**111,389,837**

[1] Proceeds from these issues were £1.0m (2015: £1.2m).

The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 85 to 103 and note 13.

27 Reserves

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

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends and share-based payments.

Other reserves

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Merger reserve	**910.5**	910.5	**910.5**	910.5
Revaluation reserve	**19.6**	23.8	**–**	–
Equity portion of the convertible bonds	**12.3**	12.3	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**12.3**	12.3
Fair value of equity instruments under share-based payments	**8.0**	6.3	**8.0**	6.3
	950.4	952.9	**930.8**	929.1

28 Profit for the year attributable to members of Derwent London plc

Profit for the year in the Group income statement includes a loss of £35.1m (2015: £20.0m) generated by the Company. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

29 Dividend

		Dividend per share				
	Payment date	PID p	Non-PID p	Total p	**2016 £m**	2015 £m
Current year						
2016 final dividend	9 June 2017	32.70	5.80	38.50	**–**	–
2016 interim dividend	21 October 2016	13.86	–	13.86	**15.5**	–
Distribution of current year profit		46.56	5.80	52.36	**15.5**	–
Prior year						
2015 final dividend	10 June 2016	30.80	–	30.80	**34.2**	–
2015 interim dividend	22 October 2015	12.60	–	12.60	**–**	14.0
Distribution of prior year profit		43.40	–	43.40	**34.2**	14.0
2014 final dividend	12 June 2015	22.35	5.65	28.00	**–**	31.0
Dividends as reported in the Group statement of changes in equity					**49.7**	45.0
2016 interim dividend withholding tax	14 January 2017				**(1.7)**	–
2015 final scrip dividend	10 June 2016				**(1.1)**	–
2015 interim dividend withholding tax	14 January 2016				**1.7**	(1.7)
2015 interim scrip dividend	22 October 2015				**–**	(3.3)
2014 final scrip dividend	12 June 2015				**–**	(7.7)
2014 interim dividend withholding tax	14 January 2015				**–**	1.0
Dividends paid as reported in the Group cash flow statement					**48.6**	33.3

30 Cash and cash equivalents

	Group 2016 £m	2015 £m	Company 2016 £m	2015 £m
Cash at bank	**17.7**	6.5	**6.9**	5.6

31 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2016 and not provided for in the accounts relating to the construction, development or enhancement of the Group's investment properties amounted to £319.4m (2015: £220.1m), whilst that relating to the Group's trading properties amounted to £15.4m (2015: £nil). At 31 December 2016 and 31 December 2015, there were no obligations for the purchase, repair or maintenance of investment or trading properties.

32 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2016 and 31 December 2015, there was no liability that could arise for the Company from the cross guarantees.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

33 Leases

	2016 £m	2015 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**164.6**	149.1
later than one year and not later than five years	**557.1**	496.3
later than five years	**774.0**	699.5
	1,495.7	1,344.9

	2016 £m	2015 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**1.2**	1.1
later than one year and not later than five years	**4.8**	4.8
later than five years	**237.0**	144.8
	243.0	150.7
Future contingent rent payable on finance leases	**(19.8)**	(16.7)
Future finance charges on finance leases	**(199.3)**	(110.8)
Present value of finance lease liabilities	**23.9**	23.2
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**0.1**	0.1
later than five years	**23.8**	23.1
	23.9	23.2

In accordance with IAS 17 Leases, the minimum lease payments are allocated as follows:

	2016 £m	2015 £m
Finance charge	**1.0**	1.1
Contingent rent	**0.7**	0.4
Total	**1.7**	1.5

The Group has approximately 700 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 20 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases granted during 2016 was 12.2 years (2015: 11.1 years). Of these leases, on a weighted average basis, 98% (2015: 97%) included a rent free or half rent period.

34 Post balance sheet events

In February 2017, the Group agreed a conditional put and call option to sell 8 Fitzroy Street W1 for £197m before costs to the Arup group ('Arup'), who occupy the whole building, with completion expected in June 2017. Simultaneously, Arup agreed to take a 20-year lease on 133,600 sq ft at 80 Charlotte Street W1.

In February 2017, the Group also sold its freehold interest in 132-142 Hampstead Road NW1 for £130m before costs.

The properties disposed of by the Group have not been included in non-current assets held for sale as management was not committed to selling them at 31 December 2016.

On 28 February 2017, the Group announced a special dividend of 52p per share.

35 List of subsidiaries and joint ventures

A full list of subsidiaries and joint ventures as at 31 December 2016 is set out below:

	Ownership[2]	Principal activity
Subsidiaries		
Asta Commercial Limited	100%	Property investment
Bargate Quarter Limited	65%	Investment Company
BBR (Commercial) Limited	100%	Property investment
BBR Property Limited[1]	100%	Property trading
Caledonian Properties Limited	100%	Property investment
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Carlton Construction & Development Company Limited	100%	Dormant
Central London Commercial Estates Limited	100%	Property investment
Charlotte Apartments Limited	100%	Property investment
Corinium Estates Limited	100%	Property trading
City Shops Limited	100%	Property trading
Derwent Asset Management Limited[1]	100%	Property management
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London Angel Square Limited[1]	100%	Property investment
Derwent London Asta Limited	100%	Property trading
Derwent London Charlotte Street (Commercial) Limited	100%	Property investment
Derwent London Charlotte Street Limited[1]	100%	Property trading
Derwent London Copyright House Limited[1]	100%	Property investment
Derwent London Development Services Limited[1]	100%	Management services
Derwent London Farringdon Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London KSW Limited[1]	100%	Property investment
Derwent London Page Street (Nominees) Limited	100%	Dormant
Derwent London Page Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley City Limited	100%	Property investment
Derwent Valley Employee Trust Limited[1]	100%	Dormant
Derwent Valley Finance Limited	100%	Finance company
Derwent Valley Limited	100%	Holding company
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Properties Limited	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Derwent Valley Property Trading Limited	100%	Property trading
Derwent Valley Railway Company[1]	100%	Dormant
Derwent Valley West End Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
22 Kingsway Limited[1]	100%	Dormant
LMS Properties Limited	100%	Property investment
LMS Services Limited	100%	Management services
LMS Shops Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS (Goodge Street) Limited	100%	Property investment
LMS Finance Limited	100%	Investment Holding
LMS Industrial Finance Limited	100%	Finance company
LMS Leisure Investments Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
LMS Outlets Limited	100%	Property investment
LMS Residential Limited	100%	Property trading
London Merchant Securities Limited[1]	100%	Holding company
LS Kingsway Limited	100%	Dormant
Merchant Nominees Limited	100%	Dormant
Merchant Overseas Holdings Limited	100%	Dormant
Palaville Limited	100%	Property investment
Rainram Investments Limited	100%	Property investment
Shaftesbury Square Properties Limited	100%	Property investment

	Ownership[2]	Principal activity
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Urbanfirst Limited	100%	Investment Holding
Derwent London Capital No. 2 (Jersey) Limited[1]	100%	Finance company
Portman Investments (Baker Street) Limited	55%	Property investment
Joint ventures		
Dorrington Derwent Holdings Limited	50%	Holding company
Dorrington Derwent Investment Limited	50%	Investment company
Prescot Street GP Limited	50%	Management Company
Prescot Street Leaseco Limited	50%	Property investment
Prescot Street Limited Partnership	50%	Property investment
Prescot Street Nominees Limited	50%	Dormant
Primister Limited	50%	Property investment

1 Indicates subsidiary undertakings held directly.
2 All holdings are of ordinary shares.

The Company controls 50% of the voting rights of its joint ventures, which are accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

The Company's interest in Portman Investments (Baker Street) Limited is accounted for and disclosed in accordance with IAS 27 Consolidated and Separate Financial Statements. This gives rise to a non-controlling interest within equity in the Group balance sheet and the separate disclosure of the non-controlling interest's share of the Group's profit for the year in the Group income statement and Group statement of comprehensive income.

All of the entities above are incorporated and domiciled in England and Wales, with the exception of 22 Kingsway Limited and Derwent London Capital No. 2 (Jersey) Limited, which are incorporated and domiciled in Jersey. In addition, all the entities are registered at 25 Savile Row, London W1S 2ER, with the exception of:

- 22 Kingsway Limited and Derwent London Capital No. 2 (Jersey) Limited, which are registered at 47 Esplanade, St Helier, JE1 0BD, Channel Islands;
- Dorrington Derwent Holdings Limited and Dorrington Derwent Investment Limited, which are registered at 16 Hans Road, London SW3 1RT;
- Primister Limited, which is registered at Quadrant House, Floor 6, 4 Thomas More Square, London E1W 1YW.

36 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 85 to 103 and note 11. A full list of subsidiaries and joint ventures is given in note 35. Other related party transactions are as follows:

Group

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which occupies offices owned by the Group for which they paid a commercial rent of £0.4m (2015: £0.3m). The Group also contributed £0.1m (2015: £0.1m) to LMS Capital plc's running costs.

During 2015, the Group paid fees, at a commercial rate, of £15,000 in respect of interior design services to Mrs R. Silver, the wife of Mr S.P. Silver.

There are no outstanding balances owed to the Group with respect to all of the above transactions.

At 31 December 2016, included within other receivables in note 20 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £2.0m (2015: £2.0m).

36 Related party disclosure (continued)

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest income/(expense)		Balance receivable/(payable)	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Related party				
22 Kingsway Limited	**–**	–	**(33.5)**	(33.5)
BBR (Commercial) Limited	**–**	–	**(2.3)**	0.9
BBR Property Limited	**(0.2)**	0.2	**(5.3)**	(3.0)
Derwent Asset Management Limited	**–**	–	**(0.5)**	(0.3)
Derwent Central Cross Limited	**8.3**	8.9	**203.5**	202.5
Derwent Henry Wood Limited	**1.9**	2.2	**47.3**	48.1
Derwent London Asta Limited	**0.4**	–	**15.3**	–
Derwent London Angel Square Limited	**3.4**	3.5	**84.3**	80.5
Derwent London Capital No. 2 (Jersey) Limited[1]	**(3.8)**	(3.7)	**(142.8)**	(140.1)
Derwent London Charlotte Street (Commercial) Limited	**–**	–	**1.1**	1.1
Derwent London Charlotte Street Limited	**–**	0.6	**(1.6)**	7.6
Derwent London Copyright House Limited	**3.0**	1.0	**85.9**	53.6
Derwent London Development Services Limited	**0.4**	–	**18.7**	–
Derwent London Farringdon Limited	**4.1**	4.2	**105.2**	95.5
Derwent London Grafton Limited	**0.7**	1.6	**(26.8)**	34.6
Derwent London Howland Limited	**5.0**	5.6	**123.9**	126.1
Derwent London KSW Limited	**3.6**	2.9	**88.9**	89.1
Derwent London Page Street Limited	**0.7**	0.9	**15.2**	19.1
Derwent Valley Central Limited	**(7.5)**	(7.4)	**(108.8)**	(6.3)
Derwent Valley London Limited	**4.6**	5.3	**152.0**	115.0
Derwent Valley Property Developments Limited	**1.7**	3.2	**32.3**	58.7
Derwent Valley Property Investments Limited	**(4.0)**	(4.0)	**(83.3)**	(61.3)
Derwent Valley Railway Company[2]	**–**	–	**(0.2)**	(0.2)
Derwent Valley West End Limited	**0.1**	0.1	**2.3**	2.4
London Merchant Securities Limited[3]	**5.6**	5.5	**151.3**	112.3
	28.0	30.6	**722.1**	802.4

[1] The payable balance at 31 December 2016 includes the intercompany loan of £142.9m (2015: £140.2m) included in note 23.
[2] Dormant company.
[3] Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the loan from Derwent London Capital No. 2 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

37 EPRA performance measures

Summary table

	2016		2015	
		Pence per share p		Pence per share p
EPRA earnings	**£85.7m**	**76.99**	£78.7m	71.34
EPRA net asset value	**£3,966.3m**	**3,551**	£4,101.7m	3,535
EPRA triple net asset value	**£3,853.5m**	**3,450**	£4,018.8m	3,463
EPRA vacancy rate	**2.6%**		1.3%	
EPRA cost ratio (including direct vacancy costs)	**24.0%**		24.3%	
EPRA net initial yield	**3.4%**		3.1%	
EPRA 'topped-up' net initial yield	**4.1%**		3.8%	

The definition of these measures can be found on page 173.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2016 '000	2015 '000	**2016 '000**	2015 '000
For use in basic measures	**111,315**	110,320	**111,390**	111,172
Dilutive effect of convertible bonds	**–**	4,498	**–**	4,498
Dilutive effect of share-based payments	**296**	355	**291**	363
For use in measures for which bond conversion is dilutive	**111,611**	115,173	**111,681**	116,033
Less dilutive effect of convertible bonds	**–**	(4,498)	**–**	(4,498)
For use in other diluted measures	**111,611**	110,675	**111,681**	111,535

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

For 2016, the shares attributable to the conversion of the 2019 bonds were anti-dilutive for net asset value (NAV) per share, EPRA NAV per share, EPRA triple NAV per share, unadjusted earnings per share and EPRA earnings per share.

For 2015, the shares attributable to the conversion of the 2019 bonds were dilutive for net asset value (NAV), EPRA NAV per share and unadjusted earnings per share but anti-dilutive for EPRA earnings per share. For consistency purposes the Group adopted the same approach for dilution due to convertible bonds for the calculation of EPRA triple NAV per share as EPRA NAV per share.

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

A – Disposal of investment and trading property, and associated tax and non-controlling interest

B – Revaluation (deficit)/surplus on investment property and in joint ventures, write-down in trading property and associated deferred tax and non-controlling interest

C – Fair value movement and termination costs relating to derivative financial instruments, and associated non-controlling interest

D – Loan arrangement costs written off and the dilutive effect of convertible bonds

Earnings and earnings per share

		Adjustments				
	IFRS £m	A £m	B £m	C £m	D £m	EPRA basis £m
Year ended 31 December 2016						
Net property and other income	149.2	(1.9)	1.6	–	–	148.9
Total administrative expenses	(30.9)	–	–	–	–	(30.9)
Revaluation deficit	(37.1)	–	37.1	–	–	–
Profit on disposal of investment property	7.5	(7.5)	–	–	–	–
Net finance costs	(27.8)	–	–	–	–	(27.8)
Movement in fair value of derivative financial instruments	0.3	–	–	(0.3)	–	–
Financial derivative termination costs	(9.0)	–	–	9.0	–	–
Share of results of joint ventures	2.3	–	(1.8)	–	–	0.5
Profit before tax	54.5	(9.4)	36.9	8.7	–	90.7
Tax charge	(0.9)	0.5	(2.2)	–	–	(2.6)
Profit for the year	53.6	(8.9)	34.7	8.7	–	88.1
Non-controlling interest	5.1	–	(7.6)	0.1	–	(2.4)
Earnings attributable to equity shareholders	**58.7**	**(8.9)**	**27.1**	**8.8**	**–**	**85.7**
Earnings per share	**52.73p**					**76.99p**
Diluted earnings per share	52.59p					76.78p
Year ended 31 December 2015						
Net property and other income	148.6	(3.2)	–	–	–	145.4
Total administrative expenses	(30.0)	–	–	–	–	(30.0)
Revaluation surplus	650.0	–	(650.0)	–	–	–
Profit on disposal of investment property	40.2	(40.2)	–	–	–	–
Net finance costs	(35.1)	–	–	–	0.3	(34.8)
Movement in fair value of derivative financial instruments	7.6	–	–	(7.6)	–	–
Financial derivative termination costs	(6.4)	–	–	6.4	–	–
Share of results of joint ventures	4.6	–	(3.6)	–	–	1.0
Profit before tax	779.5	(43.4)	(653.6)	(1.2)	0.3	81.6
Tax charge	(2.3)	–	1.4	–	–	(0.9)
Profit for the year	777.2	(43.4)	(652.2)	(1.2)	0.3	80.7
Non-controlling interest	(11.0)	0.4	8.4	0.2	–	(2.0)
Earnings attributable to equity shareholders	766.2	(43.0)	(643.8)	(1.0)	0.3	78.7
Interest effect of dilutive convertible bonds	4.0	–	–	–	(4.0)	–
Diluted earnings	770.2	(43.0)	(643.8)	(1.0)	(3.7)	78.7
Earnings per share	694.53p					71.34p
Diluted earnings per share	668.73p					71.11p

37 EPRA performance measures (continued)

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2016			
Net assets attributable to equity shareholders	3,932.3	3,530	3,521
Adjustment for:			
Deferred tax on revaluation surplus	5.3		
Fair value of derivative financial instruments	17.3		
Fair value adjustment to secured bonds	14.0		
Non-controlling interest in respect of the above	(2.6)		
EPRA net asset value	**3,966.3**	**3,561**	**3,551**
Adjustment for:			
Mark-to-market of secured bonds 2026	(50.6)		
Mark-to-market of secured loan 2024	(5.2)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(17.3)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(1.4)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(8.0)		
Deferred tax on revaluation surplus	(5.3)		
Fair value of derivative financial instruments	(17.3)		
Unamortised issue and arrangement costs	(10.3)		
Non-controlling interest in respect of the above	2.6		
EPRA triple net asset value	**3,853.5**	**3,459**	**3,450**
At 31 December 2015			
Net assets attributable to equity shareholders – diluted	4,062.7		3,501
Remove conversion of 1.125% unsecured convertible bonds 2019	(140.2)		
Net assets attributable to equity shareholders – undiluted	3,922.5	3,528	
Adjustment for:			
Revaluation of trading properties net of tax	1.4		
Deferred tax on revaluation surplus	8.7		
Fair value of derivative financial instruments	17.6		
Fair value adjustment to secured bonds	15.0		
Non-controlling interest in respect of the above	(3.7)		
EPRA net asset value – undiluted	3,961.5	3,563	
Adjustment for:			
Potential conversion of 1.125% unsecured convertible bonds 2019	140.2		
EPRA net asset value – diluted	4,101.7		3,535
Adjustment for:			
Mark-to-market of secured bonds 2026	(42.2)		
Mark-to-market of secured loan 2024	(0.3)		
Mark-to-market of unsecured fixed rate private placement notes 2029 and 2034	(9.1)		
Deferred tax on revaluation surplus	(8.7)		
Fair value of derivative financial instruments	(17.6)		
Unamortised issue and arrangement costs	(8.7)		
Non-controlling interest in respect of the above	3.7		
EPRA triple net asset value – diluted	4,018.8		3,463
Adjustment for 1.125% unsecured convertible bonds 2019:			
Remove conversion of bonds	(140.2)		
Unamortised issue and arrangement costs	(2.1)		
Mark-to-market of bonds	(29.4)		
EPRA triple net asset value – undiluted	3,847.1	3,460	

Cost ratio

	2016 £m	2015 £m
Administrative expenses	**30.9**	30.0
Other property costs	**7.5**	7.3
Dilapidation receipts	**(0.1)**	(0.7)
Other costs	**–**	0.3
Net service charge costs	**1.3**	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.3)**	(0.2)
Management fees received less estimated profit element	**(2.4)**	(2.6)
Share of joint ventures' expenses	**0.5**	0.3
EPRA costs (including direct vacancy costs) (A)	**37.4**	36.3
Direct vacancy costs	**(2.5)**	(3.1)
EPRA costs (excluding direct vacancy costs) (B)	**34.9**	33.2
Gross rental income	**155.4**	148.3
Ground rent	**(0.7)**	(0.4)
Service charge components of rental income	**(0.3)**	(0.2)
Share of joint ventures' rental income less ground rent	**1.3**	1.4
Adjusted gross rental income (C)	**155.7**	149.1
EPRA cost ratio (including direct vacancy costs) (A/C)	**24.0%**	24.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**22.4%**	22.3%

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

Property portfolio at fair value (D)	**4,942.7**	4,954.5
Portfolio cost ratio (A/D)	**0.8%**	0.7%

The Group has not capitalised any overhead or operating expenses in either 2016 or 2015.

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

	2016 £m	2015 £m
Property portfolio – wholly owned	**4,942.7**	4,954.5
Share of joint ventures	**37.7**	33.9
Less non-EPRA properties[1]	**(950.7)**	(855.4)
Completed property portfolio	**4,029.7**	4,133.0
Allowance for:		
Estimated purchasers' costs	**274.0**	239.7
Estimated costs to complete	**5.4**	0.1
EPRA property portfolio valuation (A)	**4,309.1**	4,372.8
Annualised contracted rental income, net of ground rents	**149.3**	136.1
Share of joint ventures	**1.0**	1.0
Less non-EPRA properties[1]	**(2.1)**	(2.2)
Add outstanding rent reviews	**2.9**	1.7
Less estimate of non-recoverable expenses	**(3.9)**	(3.1)
	(3.1)	(3.6)
Current income net of non-recoverable expenses (B)	**147.2**	133.5
Contractual rental increases across the portfolio	**47.8**	35.5
Less non-EPRA properties[1]	**(18.3)**	(4.9)
Contractual rental increases across the EPRA portfolio	**29.5**	30.6
'Topped-up' net annualised rent (C)	**176.7**	164.1
EPRA net initial yield (B/A)	**3.4%**	3.1%
EPRA 'topped-up' net initial yield (C/A)	**4.1%**	3.8%

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

37 EPRA performance measures (continued)

Vacancy rate

	2016 £m	2015 £m
Annualised estimated rental value of vacant premises	**5.4**	2.5
Portfolio estimated rental value	**284.5**	278.1
Less non-EPRA properties[1]	**(77.5)**	(83.6)
	207.0	194.5
EPRA vacancy rate	**2.6%**	1.3%

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

38 Total return

	2016 p	2015 p
EPRA net asset value on a diluted basis		
At end of year	**3,551**	3,535
At start of year	**(3,535)**	(2,908)
Increase	**16**	627
Dividend per share	**45**	41
Increase including dividend	**61**	668
Total return	**1.7%**	23.0%

39 Gearing and interest cover

NAV gearing

	2016 £m	2015 £m
Net debt	**904.8**	911.7
Net assets	**3,999.4**	3,995.4
NAV gearing	**22.6%**	22.8%

Loan-to-value ratio

	2016 £m	2015 £m
Net debt	**904.8**	911.7
Fair value adjustment of secured bonds	**(14.0)**	(15.0)
Unamortised issue and arrangement costs	**10.3**	10.8
Leasehold liabilities	**(23.9)**	(23.2)
Drawn debt	**877.2**	884.3
Fair value of property portfolio	**4,942.7**	4,954.5
Loan-to-value ratio	**17.7%**	17.8%

Net interest cover ratio

	2016 £m	2015 £m
Net property and other income	**149.2**	148.6
Adjustments for:		
Other income	**(2.4)**	(2.6)
Other property income	**(0.5)**	(3.7)
Net surrender premiums received	**(0.1)**	–
Write-down of trading property	**1.6**	–
Profit on disposal of trading properties	**(1.9)**	(3.2)
Reverse surrender premiums	**0.1**	–
Adjusted net property income	**146.0**	139.1
Finance income	**–**	(0.1)
Finance costs	**27.8**	34.9
	27.8	34.8
Adjustments for:		
Finance income	**–**	0.1
Other finance costs	**(0.1)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.0**	1.0
Amortisation of issue and arrangement costs	**(2.2)**	(2.3)
Finance costs capitalised	**13.0**	5.0
Net interest payable	**39.5**	38.4
Net interest cover ratio	**370%**	362%

40 Significant accounting policies

Basis of consolidation

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the year to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Gross property income

Gross property income arises from two main sources:

(i) Rental income – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with SIC 15 Operating Leases – Incentives and IAS 17 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free or half rent periods or capital contributions in lieu of rent free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IAS 17 Leases. Minimum lease payments receivable, again defined in IAS 17, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

(ii) Surrender premiums – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement.

Other income

Other income consists of commissions and fees arising from the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of service.

40 Significant accounting policies (continued)

Expenses

(i) Lease payments – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

(ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

(iii) Reverse surrender premiums – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.

(iv) Other property expenditure – Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IAS 17 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

Employee benefits

(i) Share-based remuneration

Equity settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of the options granted is calculated using a binomial lattice pricing model.

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

(ii) Pensions

(a) Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

(b) Defined benefit plans – The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the Group statement of comprehensive income.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Investment property

(i) Valuation – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

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

(ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.

(iii) Disposal – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.

(iv) Development – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Property, plant and equipment

(i) Owner-occupied property – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.

(ii) Artwork – Artwork is stated at revalued amounts on the basis of open market value.

(iii) Other – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

40 Significant accounting policies (continued)

Financial assets

(i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

Financial liabilities

(i) Bank loans and fixed rate loans – Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.

(ii) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.

(iii) Convertible bonds – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

(iv) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(v) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

(vi) Trade payables – Trade payables are recognised and carried at the original transaction value.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historic cost of the properties.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Dividends

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

Foreign currency translation

Transactions entered into by Group entities in currencies other than the entity's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the Group income statement.

Nine-year summary (unaudited)

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m	2008[2] £m
Income statement									
Gross property income	**156.0**	152.0	138.4	131.6	124.8	125.5	119.4	123.8	119.0
Net property income and other income	**149.2**	148.6	136.1	124.3	117.0	117.7	113.0	114.8	95.5
Profit/(loss) on disposal of properties and investments	**7.5**	40.2	30.2	53.5	10.8	36.1	0.9	(16.6)	1.2
Profit/(loss) before tax	**54.5**	779.5	753.7	467.9	228.1	233.0	352.8	(34.9)	(606.5)
Earnings and dividend per share									
EPRA earnings	**85.7**	78.7	58.6	55.1	51.3	52.3	53.6	57.6	21.9
EPRA earnings per share (p)	**76.99**	71.34	57.08	53.87	50.36	51.59	52.89	57.14	21.74
IFRS dividend (p)	**44.66**	40.60	37.40	34.50	31.85	29.60	27.60	24.50	23.15
Distribution of years' profit (p)	**52.36**	43.40	39.65	36.50	33.70	31.35	29.00	27.00	24.50
Net asset value									
Net assets	**3,999.4**	3,995.4	3,075.7	2,370.5	1,918.0	1,714.5	1,494.7	1,163.9	1,215.0
Net asset value per share (p) – undiluted	**3,530**	3,528	2,931	2,248	1,824	1,636	1,432	1,117	1,170
EPRA net asset value per share (p) – diluted	**3,551**	3,535	2,908	2,264	1,886	1,701	1,474	1,161	1,222
EPRA triple net asset value per share (p) – diluted	**3,450**	3,463	2,800	2,222	1,764	1,607	1,425	1,126	1,206
EPRA total return (%)	**1.7**	23.0	30.1	21.9	12.7	17.4	29.3	(2.9)	(30.6)
Property portfolio									
Property portfolio at fair value	**4,942.7**	4,954.5	4,168.1	3,353.1	2,859.6	2,646.5	2,426.1	1,918.4	2,108.0
Revaluation (deficit)/surplus	**(42.6)**	651.4	671.9	337.5	175.3	172.1	301.7	(81.1)	(602.1)
Cash flow statement									
Cash flow[1]	**19.6**	(43.6)	(57.3)	(65.9)	1.9	18.4	(171.6)	139.5	(83.7)
Net cash from operating activities	**77.7**	76.0	65.6	57.5	52.5	47.2	46.5	66.4	39.3
Acquisitions	**18.0**	246.2	92.4	130.1	99.8	91.6	148.0	10.2	31.9
Capital expenditure on properties	**213.5**	116.4	113.2	108.4	78.6	42.6	49.5	94.6	72.9
Disposals	**224.7**	277.2	114.4	149.7	161.0	131.5	8.5	195.5	72.6
Gearing and debt									
Net debt	**904.8**	911.7	1,013.3	949.2	874.8	864.5	887.8	720.8	865.4
NAV gearing (%)	**22.6**	22.8	32.9	40.0	45.6	50.4	59.4	61.9	71.2
Loan-to-value ratio (%)	**17.7**	17.8	24.0	28.0	30.0	32.0	35.7	36.4	39.7
Net interest cover ratio (%)	**370**	362	286	279	263	261	286	280	215

[1] Cash flow is the net cash from operating and investing activities less the dividend paid.

[2] 2008 was the Group's first full year following the merger of Derwent Valley Holdings plc and London Merchant Securities plc. It was also the Group's first full year as a REIT.

A list of definitions is provided on page 173.

EPRA summary (unaudited)

EPRA Measure	Definition	2016	2015
EPRA Performance Measures Page 160			
EPRA earnings	Earnings from operational activities	**£85.7m**	£78.7m
EPRA undiluted earnings per share	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	**76.99p**	71.34p
EPRA net asset value (NAV)	NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model	**£3,966.3m**	£4,101.7m
EPRA diluted NAV per share	EPRA NAV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**3,551p**	3,535p
EPRA triple NAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable	**£3,853.5m**	£4,018.8m
EPRA diluted triple NAV per share	EPRA triple NAV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**3,450p**	3,463p
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	**2.6%**	1.3%
EPRA cost ratio (including direct vacancy costs)	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income	**24.0%**	24.3%
EPRA net initial yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs	**3.4%**	3.1%
EPRA 'topped-up' net initial yield	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents)	**4.1%**	3.8%
EPRA Sustainability Performance Measures			
Total electricity consumption	Energy use across our total managed portfolio (landlord/common areas) – annual kWh	**10,580,966**	11,748,376
Like-for-like total electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	**9,414,212**	9,827,041
Total fuel consumption	Energy use across our total managed portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**15,237,152**	15,782,576
Like-for-like total fuel consumption	Energy use across our like-for-like portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**14,446,722**	13,076,103
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m^2	**78.07**	82.62
Total direct greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); a total of Scope 1 emissions – annual metric tonnes CO_2e	**3,533**	3,186
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy-use – annual metric tonnes CO_2e	**4,342**	5,406
Like-for-like total direct greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 1 energy-use – annual metric tonnes CO_2e	**2,528**	2,248
Like-for-like total indirect greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 2 energy-use – annual metric tonnes CO_2e	**3,879**	4,542
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m^2/£m turnover/fair market value (reported in tCO_2e/m^2) – kg CO_2e/m^2/year	**0.024**	0.025
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m^3	**150,413**	160,217
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m^3	**131,300**	133,662
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m^3/m^2/year	**0.47**	0.50
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	**2,739**	2,413
Like-for-like total weight of waste by disposal route	Waste generated across our like-for-like portfolio – annual metric tonnes and proportion by disposal route	**2,514**	2,178

Principal properties (unaudited)

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Central (54%)				
Fitzrovia[1] (35%)				
80 Charlotte Street W1	100-200	O/R/Re	F	380,000[2]
1-2 Stephen Street & Tottenham Court Walk W1	200+	O/R/L	F	264,800
132-142 Hampstead Road NW1	100-200	O	F	219,700
8 Fitzroy Street W1	100-200	O	F	147,900
90 Whitfield Street W1	100-200	O/R/Re	F	109,500
The Copyright Building, 30 Berners Street W1	50-100	O/R	L	107,150[2]
Holden House, 54-68 Oxford Street W1	100-200	O/R	F	90,200
Henry Wood House, 3-7 Langham Place W1	50-100	O/R/L	L	79,900
Middlesex House, 34-42 Cleveland Street W1	50-100	O	F	65,700
Network Building, 95-100 Tottenham Court Road W1	50-100	O/R	F	64,300
88-94 Tottenham Court Road W1	0-25	O/R	F	52,400
Charlotte Building, 17 Gresse Street W1	50-100	O	L	47,200
80-85 Tottenham Court Road W1	50-100	O/R	F	44,500
60 Whitfield Street W1	25-50	O	F	36,200
43 and 45-51 Whitfield Street W1	25-50	O	F	30,900
Rathbone Studios, 7-10 Rathbone Place W1	0-25	O/R/Re	L	23,100
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	20,300
76-78 Charlotte Street W1	0-25	O	F	11,000
50 Oxford Street W1[3]	0-25	O/R	F/L	6,100
Victoria (11%)				
Horseferry House, Horseferry Road SW1	100-200	O	F	162,700
Greencoat and Gordon House, Francis Street SW1	100-200	O	F	138,800
1 Page Street SW1	100-200	O	F	127,800
Premier House, 10 Greycoat Place SW1	25-50	O	F	62,000
Francis House, 11 Francis Street SW1	25-50	O	F	57,000
6-8 Greencoat Place SW1	25-50	O	F	33,200
Baker Street/Marylebone (4%)				
19-35 Baker Street W1	50-100	O/R	L	77,800
88-110 George Street W1	25-50	O/R/Re	L	44,800
30 Gloucester Place W1	0-25	O/Re	L	23,600
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	22,000
17-39 George Street W1	25-50	O/R/Re	L	21,400
Soho/Covent Garden (1%)				
Bush House, South West Wing, Strand WC2	25-50	O	F	107,900
1 Oxford Street W1	0-25	O/R/L	L	–
Mayfair (1%)				
25 Savile Row W1	50-100	O/R	F	42,000
Paddington (2%)				
Brunel Building, 55 North Wharf Road W2	50-100	O	L	240,000[2]

1 Includes Euston and North of Oxford Street.
2 Proposed scheme area.
3 Includes 36-38 and 42-44 Hanway Street W1.
( ) Percentages weighted by valuation.

Principal properties (unaudited)

continued

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Borders (9%)				
Islington/Camden (9%)				
Angel Building, 407 St. John Street EC1	200+	O/R	F	262,000
Angel Square EC1	100-200	O	F	126,200
4 & 10 Pentonville Road N1	25-50	O	F	53,400
Porters North, 8-14 Crinan Street N1[4]	0-25	O	F	43,600
401 St. John Street EC1	0-25	O	F	12,300
City: Borders (35%)				
Clerkenwell (11%)				
20 Farringdon Road EC1	100-200	O/R/L	L	169,200
88 Rosebery Avenue EC1	50-100	O	F	103,700
Morelands, 5-27 Old Street EC1	50-100	O/R	L	88,800
The Buckley Building, 49 Clerkenwell Green EC1	50-100	O/R	F	85,100
Turnmill, 63 Clerkenwell Road EC1	50-100	O/R	F	70,300
19 Charterhouse Street EC1	50-100	O	F	63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	25-50	O	F	35,000
151 Rosebery Avenue EC1	0-25	O	F	24,000
3-4 Hardwick Street EC1	0-25	O	F	12,000
Holborn (6%)				
Johnson Building, 77 Hatton Garden EC1	100-200	O/R	F	157,100
40 Chancery Lane WC2	100-200	O/R	L	102,000
6-7 St. Cross Street EC1	25-50	O	F	33,800
Old Street (10%)				
White Collar Factory, Old Street Yard EC1	200+	O/R/Re	F	293,000[2]
1 Oliver's Yard EC1	100-200	O/R	F	185,100
Monmouth House, 58-64 City Road EC1	0-25	O	F	41,300
19-23 Featherstone Street EC1	0-25	O	F	27,500
Shoreditch/Whitechapel (8%)				
Tea Building, 56 Shoreditch High Street E1	200+	O/R/L	F	269,400
The White Chapel Building E1	100-200	O	F	270,000
9 and 16 Prescot Street E1[4]	25-50	O/R	F	106,300
Provincial (2%)				
Scotland (2%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-100	R/L	F	325,500
Land, Bishopbriggs, Glasgow	25-50	–	F	5,200 acres

1 Includes Euston and North of Oxford Street.
2 Proposed scheme area.
3 Includes 36-38 and 42-44 Hanway Street W1.
4 Joint venture, Derwent London has a 50% interest.
( ) Percentages weighted by valuation.

Tech Belt (42%)

List of definitions (unaudited)

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

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

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

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

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

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in November 2016. This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- EPRA earnings per share
  Earnings from operational activities.
- EPRA net asset value per share
  NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.
- EPRA triple net asset value per share
  EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.
- EPRA cost ratio (including direct vacancy costs)
  EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.
- EPRA cost ratio (excluding direct vacancy costs)
  Calculated as above, but with an adjustment to exclude direct vacancy costs.
- EPRA net initial yield (NIY)
  Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.
- EPRA 'topped up' net initial yield
  This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).
- EPRA vacancy rate
  Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.

In addition, the Group has adopted the following recommendation for investment property reporting.

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

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

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

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

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

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

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

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

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

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

NAV gearing
Net debt divided by net assets.

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

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

Net interest cover ratio
Net property income, excluding all non-core items divided by interest payable on borrowings and non-utilisation fees.

List of definitions (unaudited)

continued

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

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

Real Estate Investment Trust (REIT)
The UK Real Estate Investment Trust ('REIT') regime was launched on 1 January 2007. On 1 July 2007, Derwent London plc elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publicly available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution. These distributions can be subject to withholding tax at 20%.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors.

Rent reviews
Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Reversion
The reversion is the amount by which ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of space that is vacant and available to occupy or under development or refurbishment.

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

Total property return (TPR)
Total property return is a performance measure calculated by the IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as 'the percentage value change plus net income accrual, relative to the capital employed.'

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

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields

- Net initial yield
  Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.
- Reversionary yield
  The anticipated yield to which the net initial yield will rise once the rent reaches the estimated rental values.
- True equivalent yield
  The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.
- Yield shift
  A movement in the yield of a property asset, or like-for-like portfolio, over a given year. Yield compression is a commonly-used term for a reduction in yields.

Sustainability and corporate responsibility

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions Scopes 1, 2 and 3
Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

CDP
The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

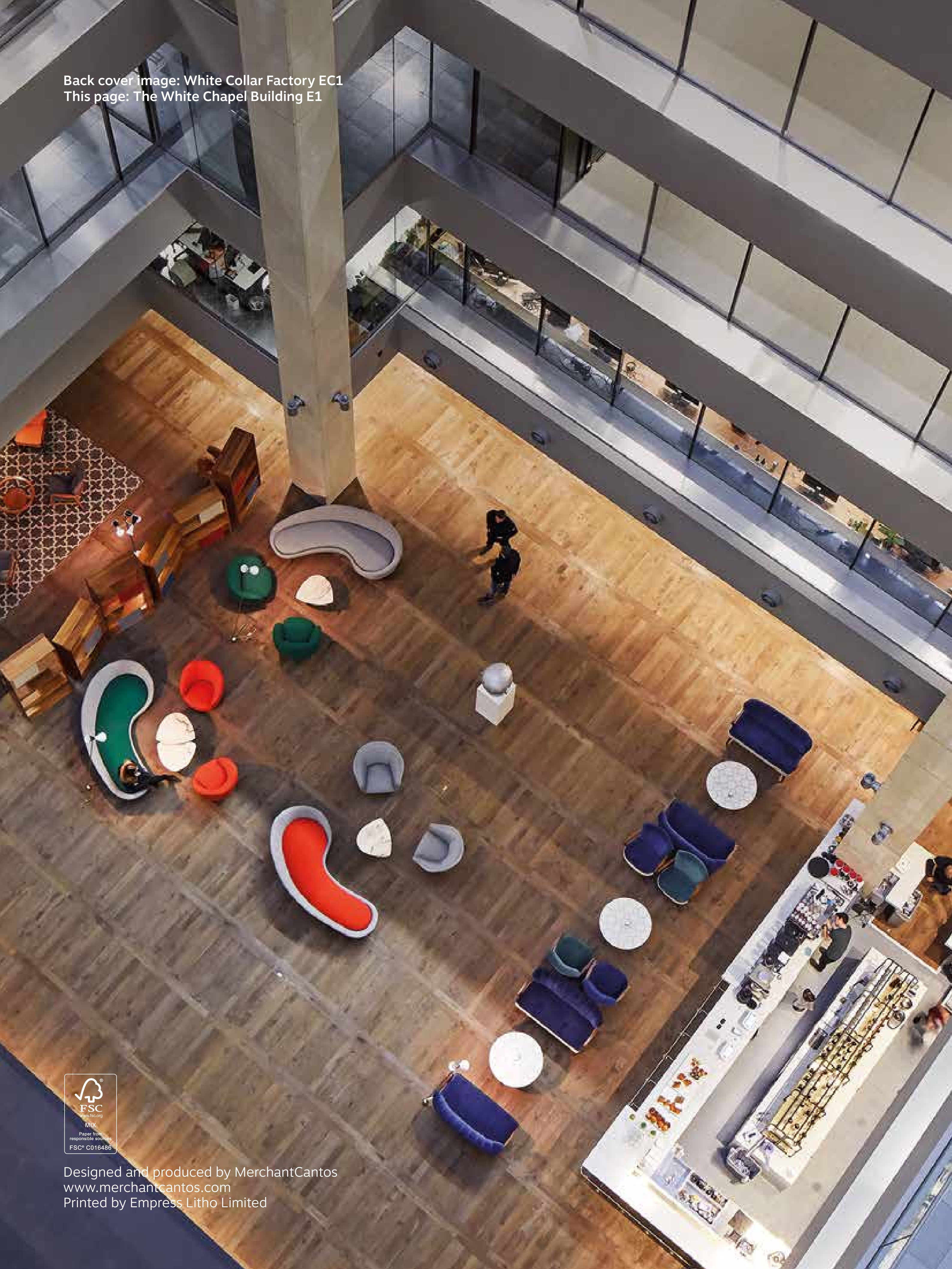
Department for Environment, Food and Rural Affairs (DEFRA)
The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

Global Real Estate Sustainability Benchmark (GRESB)
The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)
The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

Transmission and distribution (T&D)
The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Well to tank (WTT)
The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.



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Building a brand
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Well-designed spaces
Supporting communities
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