CHAIRMAN'S STATEMENT

2014 was another positive year for Derwent London. We strengthened our income, our largest development programme is well underway and we continued to improve our strong financial platform.

ROBERT RAYNE
CHAIRMAN

"We see scant evidence so far of a commercial property slowdown in London and we expect to see rental growth at least maintained at 6-8% across the portfolio, and investment yields to remain firm in 2015."

Overview

I am pleased to report another very positive year for Derwent London in 2014. Aided by the exceptionally strong London property market the growth in net asset value (NAV) exceeded our expectations. Our long-term strategy of investing in innovative design-led projects in London's emerging villages appeals to occupiers and increasingly to investors, as the definition of London's core office locations continues to evolve. Our total return was 30% and, over the last two and five years, we have achieved total returns of 58% and 164%, respectively.

We strengthened our income in 2014 through the letting of 188,300 sq ft of space securing £9.2m of rental income. Overall lettings achieved rents 11.2% above December 2013 estimated rental values (ERV) with open market lettings 18.1% above that benchmark. Derwent London's year end annual net contracted rents have risen to £131.7m (up 4.5% in the year), and our ERV to £215.6m (up 9.4%). As a result of completing a number of developments in the latter part of 2014 our December EPRA vacancy rate rose to 4.1%. This level is higher than in recent years, but only slightly above the ten-year average of 3.3%. In current market conditions, this creates an opportunity to capture higher rents. Lettings since the year end, including 34,150 sq ft at 1-2 Stephen Street W1, have seen our vacancy rate fall to 2.1%.

Derwent London's largest development programme to date is well underway having spent £122m on projects in 2014. In October we finished Queens W2, a residential scheme, where we have sold approximately half the apartments by value. In 2015 we have already completed Turnmill EC1 and are soon to deliver 40 Chancery Lane WC2 to Publicis, who pre-let both office buildings. The iconic White Collar Factory EC1 is on track for completion in the second half of 2016.

We are also progressing new development projects. Work has commenced on 105,000 sq ft at The Copyright Building, 25-33 Berners Street W1, which only received planning consent in October 2014, and where we recently finalised terms for a new headlease with the freeholder. In January 2015 we submitted a planning application to redevelop Wedge House, 40 Blackfriars Road SE1 as a 110,000 sq ft hotel and offices. Later in the year we expect to start our largest project at 80 Charlotte Street W1 (380,000 sq ft), which will become a landmark building in the heart of Fitzrovia. During 2015 we will also be securing vacant possession of 55-65 North Wharf Road W2 prior to commencing development of 240,000 sq ft in 2016. We estimate we will spend £329m on developments in the next two years alone. Beyond that our portfolio holds numerous additional opportunities capable of supporting significant development activity over the next decade.

Derwent London believes in recycling its assets. During the year we sold five smaller office properties for £98.0m at an average premium of 40% to December 2013 values. Sales were almost matched by the acquisition of two properties, both close to existing holdings, for £90.9m. The larger acquisition was Angel Square EC1, a prominent 128,700 sq ft corner building opposite our highly successful Angel Building, which represents a major opportunity to further regenerate this part of Islington.

During 2014 we continued to improve our strong financial platform taking advantage of relatively attractive financial markets. In January 2014 we drew down £100m from our US private placement in 15 and 20 year notes thereby enhancing our debt maturity. In December we extended the term of our £550m unsecured bank facility and reduced the margin. We also called our option for the early redemption of the £175m 2.75% convertible bonds 2016. As expected all the bondholders opted to convert, leading to the issue of 7.9m new shares in January 2015. Adjusting for the new equity the proforma year end loan-to-value ratio (LTV) falls from 24.0% to 19.9% and our earliest debt expiry is now in 2017. At the year end we had cash and undrawn debt facilities of £336m.

Financial results

Our property portfolio increased in value to £4.2bn. The total revaluation gain of £671.9m was the main component of our 28.4% growth in fully diluted EPRA NAV per share to 2,908p.

The growth in our annual profits reflects a buoyant letting programme and the major capital investment we have made over the last few years. Our reported net rents rose 5.8% to £128.7m resulting in an improvement to our interest cover ratio to a very comfortable 2.9 times. EPRA profit before tax increased 7.8% to £62.3m, and EPRA earnings per share improved by 6.0% to 57.08p.

Operationally and financially the Group is in a strong position and, as a result, we have raised the final dividend to 28.0p per share, an increase of 8.7%. The final dividend will be paid on 12 June 2015 to shareholders on the register on 8 May 2015. Of this, 22.35p will be paid as a PID under the UK REIT regime, and there will be a scrip alternative. The resultant dividend for the full year will be 39.65p per share, an increase of 8.6% over 2013.

CHAIRMAN'S STATEMENT
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The Board
Robert Farnes, who has served as a non-executive Director of the Company since 2003, is due to step down from the Board at the forthcoming AGM in May 2015. I would like to thank him for his advice and sound judgement throughout this period. The process of refreshing the Board is continuing and we anticipate making further announcements over the next few months.

Our people
These results would not have been possible without the continued expertise and dedication of the Derwent London team. We have increased our staff numbers over the last few years to support our greater development commitment, and it is pleasing to see that the Derwent London business culture continues. This approach has gained external recognition again with the Group once more featuring in the Management Today awards for 'Britain's Most Admired Companies', where in 2014 we topped the property sector for the fifth consecutive year, and were placed ninth across all sectors.

Outlook
The London commercial property market is set for continued growth with low availability, manageable supply and strong occupier and investor demand. Looking forward London's economy is expected to grow at around 3% per annum on average over the medium term. As a result, the outlook remains good and we expect to see rental growth maintained at 6-8% across the portfolio and investment yields to remain firm in 2015.

We are very confident in our business and markets, and our financial position has been strengthened further. We are aware of rising external risk factors in the last twelve months. For London property specifically, these include a continuing slowdown in the top-end residential market and increasing construction costs. Other more general factors are the moderation of economic growth and business confidence outside the USA, the uncertainty surrounding the UK General Election on 7 May, a possible future UK referendum on EU membership and the heightened levels of terrorist risk. Whilst some of these risks can make property income flows more attractive to investors, we believe that long-term stable economic growth is the best background for sustained improvement in our operating performance.

28.4%

increase in EPRA net asset value per share

7.8%

increase in EPRA profit before tax

8.6%

increase in dividend per share

"We remain very confident in our business and our markets, and over the next few years look forward to delivering a substantial phased development programme to meet occupier demand."

Overall we see scant evidence so far of a commercial property slowdown in London and we remain determined to benefit from these positive conditions. Our view is supported by the substantial progress the Group has already made in 2015. So far this year we have:

- Let 34,150 sq ft to The Office Group at 1-2 Stephen Street W1.
- Pre-let 57,600 sq ft to Expedia at Angel Square EC1.
- Completed Turnmill EC1 handing over 58,200 sq ft of offices to Publicis.
- Started the 105,000 sq ft development at The Copyright Building W1.
- Applied for planning permission to develop a 110,000 sq ft hotel and office scheme at 40 Blackfriars Road SE1.
- Acquired 20 Farringdon Road EC1 adjoining Farringdon Crossrail station in a property swap transaction.
- Increased our equity base by £175m following early conversion of our 2016 convertible bonds.

This activity has put the Group in an excellent position to start our largest development of 380,000 sq ft at 80 Charlotte Street W1 later in 2015, as well as committing to future projects such as 55-65 North Wharf Road W2. We expect the current year to be another positive one for Derwent London and that, once more, the implementation of our strategy will be supported by a favourable property market to produce strong returns for our investors.

ROBERT A. RAYNE
26 FEBRUARY 2015

OUR MARKET

London economic outlook remains good

6-8% rental increase expected for 2015

Property yields expected to remain firm in 2015

DERWENT LONDON

Property portfolio well-positioned for growth:
- significant reversions
- increased development activity
- extensive development opportunities

Financial platform suitable for raised activity