INDEPENDENT AUDITOR'S REPORT

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

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 2014 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

Derwent London plc's financial statements comprise:

- the balance sheets as at 31 December 2014;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the cash flow statements for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Materiality

- Overall Group materiality: £42.0m which represents 1% of total assets.
- Specific Group materiality: £2.9m which represents 5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties. The specific Group materiality has been applied to property and other income, administrative expenses, provisions and working capital balances.

Audit scope

- This is our first audit of Derwent London plc (the 'Group') so the scope included gaining comfort over opening balances.
- The Group audit team carries out the statutory audits of all components within the Group and the consolidation.

Areas of focus

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

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Valuation of investment properties Refer to pages 114 and 115 (Report of the Audit Committee), pages 138 to 140 (Notes to the financial statements – note 16) and pages 165 to 168 (Significant accounting policies). The Group's investment properties were carried at £4,041.0m as at 31 December 2014 and a revaluation gain of £667.1m was accounted for under revaluation surplus in the Group income statement. In excess of 98% of the value of the Group's investment property portfolio comprises offices and other 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 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 market based profit margin providing a return on development risk). The most significant judgements and estimates affecting all the valuations include 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. Yields and ERVs have moved favourably reflecting the buoyancy of the central London property market which has driven a significant increase in valuation over the year. The revaluation gain was also boosted by new lettings and significant progress on a number of development projects where further costs have been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	The external valuers used by the Group are CBRE Limited for the majority of the Group's portfolio. Smiths Gore value a small amount of investment property portfolio in Scotland. 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. We agreed the property information in the valuation by tracing a sample of inputs to the underlying property records held by the Group (which were also tested during the audit). We tested the data inputs underpinning the valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them back to supporting documentation. For the properties currently under development, we traced the costs included within development appraisals to quantity surveyor reports. In addition, we visited a number of the key properties in central London that are under development to confirm the status of developments and a selection of assets within the Scottish portfolio. We met with the external valuers both with management and independently of management and obtained the valuation reports to discuss and challenge the methodology and assumptions. We identified the following assets for further testing: ongoing and planned development projects; high value assets over £100m; acquisitions; and standing investments where the valuation fell outside the expected range. 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 where appropriate. Variances were predominantly due to property specific factors such as new lettings at higher rents or the de-risking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate. We challenged the Directors and Audit Committee on the upward 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 pages 114 and 115 (Report of the Audit Committee) and pages 165 to 168 (Significant accounting policies). 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, calculation and 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 pages 114 and 115 (Report of the Audit Committee), pages 145 to 152 (Notes to the financial statements – note 24) and pages 165 to 168 (Significant accounting policies). The Group has secured and unsecured debt totalling £1,019.8m (2013: £953.5m). The debt includes unsecured convertible debt of £308.0m (2013: £302.7m) with an option for the Group to convert the debt when certain criteria have been met. It is the bondholder's decision when the option has been exercised to either convert the bonds to shares or redeem for cash. The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2014 by external valuers and the fair value was £25.2m (2013: £15.9m). 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. On 17 December 2014, the Group exercised its option to redeem its £175m 2.75% convertible bonds 2016 on 30 January 2015 at their principal amount together with any accrued interest. As at 31 December 2014, no bondholder had indicated whether it would redeem its Bonds or elect to exercise its alternative to convert to shares. Subsequent to year end, all bondholders have elected to convert their debt to shares. This was the Group's first debt conversion and accounting for convertible debt can be complex, including the need to identify potential embedded derivatives. We therefore made this an area of audit focus.	We obtained and reviewed every loan contract to understand the terms and conditions. Where debt covenants were identified, we reperformed management's calculations to verify compliance with the contracts. The carrying value of all debt was agreed to third party confirmations. As this was our first audit, we checked that the initial recognition and subsequent measurement of debt was in accordance with IAS 39 and we also evaluated the disclosures in the financial statements to confirm that the presentation met the requirements of IAS 32. We obtained the convertible bond documentation to understand each of the clauses and the impact of the exercise of the option to redeem. We obtained management's proposed accounting treatment and were satisfied that it was consistent with the convertible bond documentation and accounting standards. We assessed and agreed the classification of the debt as current due to the conversion in January 2015. 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 also performed independent valuations to recalculate the value using independent market data. From our work on the terms of the debt arrangements in place as at 31 December 2014, we considered that the borrowings and derivatives were accounted for line with the technical requirements, valued correctly in the context of materiality, and disclosed appropriately.

How we tailored the audit scope

This was our first year audit of the Group so we carried out procedures to gain comfort over opening balances including a review of the predecessor auditor's working papers.

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 43 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint venture. The Group audit team performed all of this work by applying overall Group materiality and specific materiality, together with additional procedures performed on the consolidation. This 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 and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

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

Overall Group materiality	£42.0m
How we determined it	1% of total assets
Specific materiality	£2.9m
How we determined it	5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality to test 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 £2.0m as well as misstatements below that amount 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 89, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. 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 opinion

In our opinion, the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
the statement given by the Directors on page 87, 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 arising from this responsibility.
the section of the annual report on pages 114 and 115, 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 arising from this responsibility.

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, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance 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 81, 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

26 FEBRUARY 2015