CHAIRMAN'S STATEMENT

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ROBERT RAYNE
CHAIRMAN

Overview

Derwent London made excellent progress in 2015. A highlight of the Group's performance was the 21.6% increase in our EPRA diluted NAV to 3,535p per share driven by the combination of rental value growth, development surpluses, asset management activity and yield tightening. There was also a particularly strong rise in EPRA recurring earnings which increased by 25.0% to 71.34p per share, the product of our substantial letting progress in recent years and lower interest costs.

As a result of this growing income stream, the Board has recommended raising the final dividend by 10.0% to 30.80p per share to make the full year's dividend 43.40p, an increase of 9.5% for the year. At this level the total dividend for 2015 is 1.6 times covered by recurring earnings. Our average dividend growth in the eight years since we converted to a REIT has been 8.6% pa.

During the year the London office market saw strong demand both from occupiers and investors. In what proved a record year for the Group, we let 523,800 sq ft in 79 transactions capturing £27.1m pa of rental income. On average these lettings were 10.8% above December 2014 Estimated Rental Values (ERV) and, by income, 44% were pre-lets. Buoyant investment demand enabled us to make £247.8m of investment property disposals at an average surplus of 18.4% to our December 2014 book values. Despite the competitive market conditions the Group was also able to acquire two major properties in the Tech Belt for £232.0m, and we invested £116.4m of capital expenditure in our projects. After a year of significant refinancing activity, including the early conversion to equity of the first of our two convertible bonds, we have strengthened our financial position with enhanced interest cover of 3.62x and the LTV ratio being reduced to 17.8%.

"Operationally 2016 has started well for us. We have achieved £9.2m of new lettings and raised additional long-term finance."

As long-term investors in central London, it is important that our activities benefit the neighbourhoods and local environments in which we invest. Last year we extended our commitment to the Group's Community Investment Fund, which will now cover the Tech Belt as well as Fitzrovia. Our Sustainability Report, published simultaneously with the Annual Report, gives more detail of the Group's activities. Brief highlights include improved resource efficiency with reductions in carbon generation and energy use. We continue to record high ratings from GRESB, CDP and EPRA, and are a member of FTSE4good. Looking forward, to enhance the transparency of our sustainability and corporate responsibility, we will be following Global Reporting Initiative guidelines from 2016 onwards.

This year's results provide further testimony to the success of our strategy and culture. The Group has again been recognised in the Management Today awards for 'Britain's Most Admired Companies'. In this annual survey we were ranked third across all UK companies, and first in the property sector for the sixth successive year. It is also gratifying to know that in a recent non-attributable staff survey, of the 96% who responded, all stated that they were proud to work for the Group. Once again I would like to thank them as well as our other stakeholders and advisers.

The Board

Last year we continued to refresh the Board's composition. June de Moller and Robert Farnes retired and we would like to thank them for their insight and sound judgement over a long period. In their place we are delighted to welcome Claudia Arney and Cilla Snowball, who bring with them extensive business, advertising, marketing, media and technology experience.

Outlook

The current year has started with major falls in global stock markets mainly based on concerns regarding global economic growth. In addition, the UK is facing an EU referendum in June, the result of which will either confirm the existing situation or extend the period of uncertainty as the ramifications of leaving the EU are worked out. It is too early to tell what impact this may have on the London property market, but a protracted period of uncertainty is likely to reduce business confidence.

UK economic growth appears to be moderating and, as a global city, London is not insulated from external risks, but the central London office market starts the year in a strong position with good demand and low vacancy rates. If current market conditions persist we estimate rental value growth across our portfolio of 5-8% and yields to remain firm in 2016. We expect the strongest rental growth will be at the lower end of our £45-80 per sq ft mid-market range and, with an average ERV on our central London office portfolio of only £51 per sq ft, the Group is well placed to benefit.

Operationally 2016 has started well for us. In particular we have achieved £9.2m net of new lettings thereby considerably de-risking our immediate development pipeline, and raised additional long-term finance. Together with the strong occupier interest being shown in our schemes, this enables the Group to continue its development programme confident in its resilience to potential market turbulence and well positioned to take advantage of opportunities that may arise.

ROBERT RAYNE
CHAIRMAN

25 FEBRUARY 2016