INDEPENDENT AUDITOR'S REPORT

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs adopted by the European Union;
- the parent 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.

The financial statements of Derwent London plc for the year ended 31 December 2013 comprise the Group income statement, Group statement of comprehensive income, Group and parent Company balance sheets, Group and parent Company statements of changes in equity, Group and parent Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our assessment of risks of material misstatement

The following risks have had the greatest impact on our audit strategy and scope:

- the assessment of the carrying value of investment property. The Group uses the valuation carried out by 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;
- revenue recognition, which is a presumed fraud risk under International Standards on Auditing (UK & Ireland). Rental income is recognised on a straight line basis over the lease term. The most significant accounting estimate concerning revenue recognition is management's assessment of the lease term over which incentives are recognised. The lease term is the non-cancellable period for which a lessee has contracted to lease a property together with any further terms for which a lessee has an option to continue to lease the property, with or without further payment, when at the inception of the lease it is reasonably certain that a lessee will exercise the option. Management assess the most appropriate period over which to recognise revenue based on their assessment of lease terms and whether lessees will exercise break options. Management also calculate the fair value of amounts recoverable from property disposals where those amounts are variable depending on future overage calculations. These fair values are sensitive to assumptions around future sales prices, costs and discount rates; and
- compliance with the real estate investment trust (REIT) taxation regime, exempting the Group from tax on both rental profits and chargeable gains.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £40,000,000 which reflects the underlying level of precision within the valuation of the investment property portfolio. International Standards on Auditing (UK & Ireland) also allow the Auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality of £5,000,000 to apply to those classes of transactions and balances which impact on pre-tax earnings excluding revaluation surpluses and deficits. On the basis of our risk assessment, together with our assessment of the Group's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £30,000,000 for the financial statements as a whole and £3,750,000 for items affecting adjusted pre-tax earnings. We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £400,000, as well as those individually in excess of £50,000 where the difference affected adjusted pre-tax earnings. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The way in which we scoped our response to the risks identified above was as follows:

Carrying value of investment property

- We evaluated the competence, capability and objectivity of the external valuer which included making inquiries regarding interests and relationships that may have created a threat to the external valuer's objectivity. We met with the external valuer to discuss their approach to the valuation and their findings and we reviewed management's instructions to the external valuer and determined whether there were any limitations of scope or restrictions placed upon their work.
- We reviewed the underlying data provided to the external valuer and agreed a sample of data back to source documentation, including title deeds and tenancy agreements.
- We established our own range of expectations for the changes in the valuation of investment property based on externally available metrics, comparable organisations and wider economic and commercial factors. We considered whether the overall movement in the investment property valuation indicated potential management bias to either overstate or understate the valuation. We assessed the movement of all properties against our own expectation and challenged those valuations which fell outside of our range of expectation. Explanations received from the external valuer and management supporting these valuations were corroborated to third party evidence where appropriate.
- We reviewed and challenged management initiated adjustments to the valuations and the appropriateness of these changes with the external valuer. We ensured that any management initiated changes to the valuation were based on relevant matters of fact and corroborated the basis of these changes. We assessed the process adopted by the Board and Audit Committee in meeting with the externals valuer and reviewing and approving the year end valuation.
- In order to further assess the risk of bias in the valuations, we performed a retrospective review of property disposals and compared prices achieved with the most recent valuation. Where significant realised gains were achieved we determined why such differences arose, considered the impact on the year end valuation and corroborated those explanations received.

Revenue recognition

- We carried out testing relating to controls over revenue recognition and undertook analytical and other substantive testing over rental income including reviewing underlying lease documentation. We reviewed all leases where management had determined that it was likely that tenants would exercise break options, thereby amortising the incentive to the lease break point. For each such lease we challenged the determination and ensured that it was based upon a reasonable assessment of the characteristics of the tenant and lease.

  We identified and challenged those assumptions that had the greatest affect on the fair value of the amounts recoverable from previous property disposals under overage agreements and re-performed the calculations made by the Directors.

REIT compliance

- We carried out testing relating to the effectiveness of controls over continuing REIT compliance and conducted tests to detect any breach of the Group's REIT status.

The Audit Committee's consideration of these judgements is set out on pages 113 and 114.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and Directors' report or the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and 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 Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the report of the Remuneration Committee to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 88, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

RICHARD KELLY
SENIOR STATUTORY AUDITOR

For and on behalf of BDO LLP, statutory auditor
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27 February 2014

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