

Company number: 00894239

L.M.S. Industrial Finance Limited
Directors' report and financial statements
31 December 2016

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L.M.S. Industrial Finance Limited

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Directors

J D Burns
N Q George
S P Silver
P M Williams
D M A Wisniewski

Secretary and registered office

T J Kite
25 Savile Row
London
W1S 2ER

Company number

00894239

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

L.M.S. Industrial Finance Limited

Strategic report

Review of the business

Demand for the Company's office space remained strong and investor appetite for London's commercial real estate remains high. Letting and asset management initiatives are also reflected in the results. The Company will continue to operate as a property investment company.

Principal risks and uncertainties

The principal risks and uncertainties that the Company faces are set out below with the potential effects, controls and mitigating factors:

Financial risks

Financial risk is the risk that the Company becomes unable to meet its financial obligations or finance the business appropriately. The Company has identified increasing interest rates as its key financial risk. An increase in interest rates can lead to higher property yields which would cause property values to fall, having an adverse effect on loan-to-value ratios, total return and total property return. The Company controls and mitigates this risk by regularly monitoring the impact of yield changes on financial covenants and performance as part of its quarterly management accounting process. In addition, project appraisals are regularly reviewed and updated in order to monitor the effect of yield changes.

Strategic risks

Strategic risk is the risk that the Company does not create the anticipated shareholder value or fails to meet shareholder expectations. The main strategic risk facing the Company is that its strategy is inconsistent with the market and the economy. An adverse Brexit settlement has been sighted as a new principal risk in 2016 and in particular, that negotiations to leave the European Union result in arrangements that are damaging to the UK economy and/or central London. The Group's strong financing and covenant headroom enables it to weather a downturn, whilst monitoring the Company's performance in comparison with forecasts set by the Company's ultimate parent undertaking help mitigate the risks further. These include a five year strategic review each year, an annual budget and three rolling forecasts a year. In the course of preparing these documents different economic scenarios and sensitivities are tested.

Operational risks

Operational risk is the risk that the Company suffers either a financial loss or adverse consequences due to processes being inadequate or not operating correctly. Risks include business interruption, regulatory non-compliance and contractor/sub-contractor default. The Company's Ultimate Parent Undertaking has a risk committee which is responsible for non-financial internal control, monitoring and reviewing a risk register and implementing controls and processes to minimise any risks to the Company.

Performance and position of the business

Net assets have increased by 4.1% from 31 December 2015, largely due to the increase in property valuations in the London market as a result of economic growth. This revaluation surplus has also directly impacted profits.

Performance indicators:

	2016	2015	% movement
Net assets (£)	15,075,596	14,478,367	4.1
Operating profit (£)	597,229	640,359	-6.7
Total comprehensive (expenses)/income for the year (£)	597,229	640,359	-6.7
Total return (%)	4.1	4.6	n/a

L.M.S Industrial Finance Limited

Strategic report – Continued

Performance and position of the business - continued

The Board uses the above measure, Total return, to monitor the performance of the Company. This is a measure of growth in Shareholders' funds per share, adding back any current year dividend.

Strategic report

The Company is a subsidiary of Derwent London plc. The Company's strategy is the same as the Group's strategy – to deliver an above average annualised total return to shareholders, which is achieved by adding value to buildings and sites through creative planning, imaginative design and enterprising lease management.

For more information also see the Derwent London plc group annual report.

By order of the board



T.J. Kite
Secretary
25 Savile Row
London
W1S 2ER

26 June 2017

L.M.S. Industrial Finance Limited

Directors' report

Principal activities and future developments

The Company is a private limited company incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER. The Company is a short-term, inter-company financing company that currently holds no external debt. The directors foresee no material change in the nature of the Company's activities.

Financial review and dividends

The results for the year are set out in the statement of comprehensive income on page 7. The directors do not recommend payment of a dividend (2015: £nil).

Political contributions

There were no political contributions in the year (2015: £nil).

Directors

The Directors who held office during the year and up to the date of signing were as follows:

J D Burns
N Q George
S P Silver
P M Williams
D M A Wisniewski

None of the above Directors has an interest in the ordinary share capital of the company. The interests of the Directors in the share capital of Derwent London plc, the company's parent company, are disclosed in the financial statements of that company.

Disclosure of information to auditors

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

Independent Auditors

PricewaterhouseCoopers LLP have expressed a willingness to continue in office. Under the Companies Act 2006 section 487 (2) they will be automatically re-appointed as auditors 28 days after these accounts are sent to the members, unless the members exercise their rights under the Companies Act 2006 to prevent their re-appointment.

Strategic report

The Company has included a Strategic report in its accounts for the year ended 31 December 2016 and information on the principal risks and uncertainties and a review of the business can be found there.

L.M.S. Industrial Finance Limited

Directors' report - continued

Statement of directors' responsibilities

The Directors are responsible for preparing the accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



T J Kite
Secretary
25 Savile Row
London
W1S 2ER

26 June 2017

L.M.S. Industrial Finance Limited

Independent auditors' report to the members of L.M.S. Industrial Finance Limited

Report on the financial statements

Our opinion

In our opinion, L.M.S. Industrial Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement 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 United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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 Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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.

L.M.S. Industrial Finance Limited

Independent auditors' report to the members of L.M.S. Industrial Finance Limited - Continued

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 4, 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) ("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

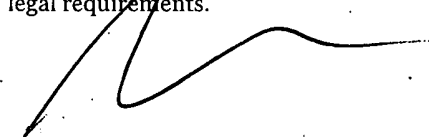
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the 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. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Craig Hughes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
26 June 2017

L.M.S. Industrial Finance Limited

Statement of comprehensive income for the year ended 31 December

	Note	2016 £	2015 £
Administrative expenses		(4,277)	-
Interest payable and similar expenses	5	(9,529,237)	(10,139,682)
Interest receivable and similar income	4	10,130,743	10,780,041
		<hr/>	<hr/>
Profit and total comprehensive income for the financial year		597,229	640,359
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All amounts relate to continuing activities

The notes on pages 9 to 13 form part of these financial statements.

L.M.S. Industrial Finance Limited

00894239

Balance sheet as at 31 December

	Note	2016 £	2015 £
Current assets			
Debtors: Amounts falling due within one year	7	254,245,032	244,118,417
Current liabilities			
Creditors: Amounts falling due within one year	8	(239,169,436)	(229,640,050)
Net assets		<u>15,075,596</u>	<u>14,478,367</u>
Capital and reserves			
Called up share capital	9	2	2
Retained earnings		<u>15,075,594</u>	<u>14,478,365</u>
Total equity		<u>15,075,596</u>	<u>14,478,367</u>

The financial statements on pages 7 to 13 were approved by the Board of Directors on ~~26~~ June 2017 and signed on its behalf by



D M A Wisniewski

The notes on pages 10 to 13 form part of these financial statements.

L.M.S. Industrial Finance Limited

Statement of changes in equity for the year ended 31 December

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2016	2	14,478,365	14,478,367
Profit and total comprehensive income for the financial year	-	597,229	597,229
At 31 December 2016	2	15,075,594	15,075,596
At 1 January 2015	2	13,838,006	13,838,008
Profit and total comprehensive income for the financial year	-	640,359	640,359
At 31 December 2015	2	14,478,365	14,478,367

The notes on pages 10 to 13 form part of these financial statements.

L.M.S. Industrial Finance Limited

Notes to the financial statements

1. Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements of L.M.S. Industrial Finance Limited have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties measured at fair value through profit or loss, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The Company is a qualifying entity for the purpose of FRS 101. Note 10 gives details of the Company's ultimate parent company and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of IAS 7 Statement of Cash Flows; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Going concern

After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Changes in accounting policies

New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Company'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 Company'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 Company.

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).

L.M.S. Industrial Finance Limited

Notes to the financial statements - Continued

1. Basis of preparation – Continued

Standards and interpretations in issue but not yet effective - Continued

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 Company has not yet completed its evaluation of the effect of their adoption.

Significant judgements, key assumptions and estimates

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The Company's significant accounting policies are stated in note 2. 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.

Financial risks

The Company faces financial risks, in particular, that it becomes unable to meet its financial obligations or finance the business appropriately. The Company has identified increasing interest rates as its key financial risk. An increase in interest rates can lead to higher property yields which would cause property values to fall, having an adverse effect loan-to-value ratios, total return and total property return.

The Company controls and mitigates this risk by regularly monitoring the impact of yield changes on performance as part of its quarterly management accounting process. In addition, project appraisals are regularly reviewed and updated in order to monitor the effect of yield changes.

2. Accounting policies

Financial assets

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 Company will not be able to collect all amounts due according to the original terms of the receivables concerned.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

3. Operating loss

Audit fees of £2,500 (2015: £2,500) have been incurred by Derwent London plc on behalf of the Company.

All employees are held in and remunerated by other Group companies.

The Company's Directors were not remunerated for their services to the Company, but instead received emoluments for their services to the other Group companies. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of the Company and their services as Directors of other Group companies.

L.M.S. Industrial Finance Limited

Notes to the financial statements - Continued

4. Interest receivable and similar income

	2016 £	2015 £
Payable to Group undertakings	10,130,743	10,780,041
	<u>10,130,743</u>	<u>10,780,041</u>

5. Interest payable and similar expenses

	2016 £	2015 £
Payable to Group undertakings	9,529,237	10,139,682
	<u>9,529,237</u>	<u>10,139,682</u>

6. Tax on profit

There is no taxation (2015: £nil) or deferred taxation (2015: £nil) charge for the year.

Factors affecting the tax for the year

The effective rate of tax for the year is lower (2015: lower) than the standard rate of corporation tax in the UK. The differences are explained below.

	2016 £	2015 £
Profit before taxation	597,229	640,359
Current tax at 20% (2015: 20.25%)	119,446	129,673
Effects of:		
Group relief claimed not paid	(137,418)	(155,406)
Difference in interest rate on intercompany loans for tax purposes	17,972	25,733
	<u>-</u>	<u>-</u>
Tax on profit	-	-

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.

L.M.S. Industrial Finance Limited

Notes to the financial statements - continued

7. Debtors

	2016 £	2015 £
Amounts falling due within one year:		
Trade debtors	-	4,277
Amounts due from group undertakings	254,245,032	244,114,140
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	254,245,032	244,118,417
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Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at the Group's average weighted cost of borrowings.

8. Creditors

	2016 £	2015 £
Amounts falling due within one year:		
Amounts owed to group undertakings	239,169,436	229,613,270
Taxation and social security	-	6,289
Other creditors	-	20,491
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	239,169,436	229,640,050
	<hr/>	<hr/>

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at the Group's average weighted cost of borrowings.

9. Called up share capital

	2016 £	2015 £
Allotted, called up and fully paid		
2 (2015: 2) Ordinary shares of £1 each	2	2
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10. Parent company

The Company's immediate parent undertaking is London Merchant Securities Limited, a company incorporated in England and Wales.

The Company's ultimate parent company is Derwent London plc, a company incorporated in England and Wales, whose registered office is at 25 Savile Row, London, W1S 2ER. Copies of the consolidated group financial statements can be obtained from this address.