DERWENT LONDON

Annual Results 2021 Announcement

DERWENT
LONDON

24 February 2022

Derwent London plc ("Derwent London" / "the Group")

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021
IMPROVING CONFIDENCE, ADDING TO THE PIPELINE

Financial highlights
- Total return of 5.8%, from -1.8% in 2020
- EPRA net tangible assets[1] 3,959p per share, up 3.9% from 3,812p in December 2020
- Net rental income of £178.2m, up 2.2% from £174.3m
- EPRA earnings of £122.0m, or 108.8p per share, up 9.7% from 99.2p in 2020
- IFRS profit before tax of £252.5m from a loss of £83.0m in 2020
- Full year dividend of 76.50p per share from 74.45p, up 2.8%
- £350m 10-year 1.875% green bond issued in November with strong investor demand
- Interest cover 464%, loan-to-value ratio of 20.8%
- Undrawn facilities and cash of £608m, up from £476m in December 2020

Portfolio highlights
- Total property return of 6.3%, compared to our benchmark index[2] of 5.9%
- Portfolio valued at £5.7bn, an underlying rise of 3.5% with development valuations up 9.2%
- True equivalent yield of 4.50%, tightening by 24bp
- 0.2% increase in office ERVs
- Significant portfolio reshaping activity
- £417.5m of property acquisitions
- £405.1m of property disposals £9.7m above December 2020 book value
- 708,000 sq ft under construction – two major schemes completing in H1 2022 and 19-35 Baker Street W1 commenced in H2 2021
- £13.7m of new lettings at +3.6% above December 2020 ERV
- £31.9m of asset management transactions in line with December 2020 ERV
- EPRA vacancy rate fell to 1.6% from 1.8% in December 2020

Sustainability
- Portfolio 99% compliant with 2023 EPC legislation and 61% 2030 compliant including projects
- Detailed EPC upgrade costings received

Outlook
- Our guidance is for 2022 average ERVs on our portfolio to move by 0% to +3%
- Average investment yields on our portfolio expected to remain firm

Paul Williams, Chief Executive, commented:

"London is a vibrant and global city that attracts world class talent. We are increasingly hearing from businesses across different sectors demanding modern, adaptable and environmentally responsible space. Our collaborative approach and our distinctively design-led product are well placed in this flight to quality and give us confidence to push ahead with our pipeline."

[1] Explanations of how EPRA figures are derived from IFRS are shown in note 25
[2] MSCI Central London Offices Quarterly Index

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 09.30 GMT today. The audio webcast can be accessed via www.derwentlondon.com

To participate in the call, please register at www.derwentlondon.com

A recording of the conference call will also be made available following the conclusion of the call on www.derwentlondon.com

For further information, please contact:

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CHAIRMAN'S STATEMENT

Derwent London is an entrepreneurial business, with an open, collaborative and inclusive approach.

With confidence in the medium term outlook, despite some near-term uncertainty, the Group proceeded with portfolio reshaping and restocking the pipeline. We also progressed on-site and future schemes while maintaining a focus on income. Our financial results demonstrate the progress we have made.

Net property and other income increased to £187.5m for the year ended 31 December 2021 from £183.0m in 2020. This was helped by impairment charges and write-offs against tenant receivables of only £0.8m against £14.2m in 2020. Gross rental income fell 4.3% to £194.2m as we took lease surrenders for new schemes and disposed of several higher yielding low growth properties. EPRA earnings per share increased 9.7% to 108.8p from 99.2p in 2020 and the IFRS profit before tax was £252.5m, more than reversing the £83.0m loss reported in 2020.

Capital values across our £5.7bn portfolio rose by an underlying 3.5% with the main drivers being development surpluses and downward valuation yield shift. This has taken total net assets to £4.4bn with an increase in EPRA net tangible assets (NTA) of 3.9% to 3,959p per share from 3,812p in December 2020.

Recognising its importance to our shareholders, we propose raising the final dividend by 1.05p to 53.5p, in line with our progressive and well covered dividend policy. It will be paid on 1 June 2022 to shareholders on the register of members at 29 April 2022. This takes the full year's dividend to 76.5p, an increase of 2.8% over the prior year.

We have a strong team and a portfolio including many high quality buildings which we believe meet the ever more demanding requirements of occupiers. We have a pipeline of schemes that will deliver modern, adaptable and sustainable space. All of this is supported by a lowly geared balance sheet with substantial capacity to finance growth.

The Group has a long and consistent track record of value creation and effective capital allocation through property cycles. We also have considerable experience in acquiring the right assets in locations with supportive fundamentals. The Group is known for targeting emerging sub-markets gaining early mover advantage, delivering prime space in a supply-constrained market.

The schemes created by the Group over the long term show a clear determination to ensure each is an improvement on the last and to future-proof buildings as far as possible. This may come through the design, the technology or the green credentials. Our investment approach is supported by our in-house property management and asset management teams who focus on creating and strengthening close occupier relationships. Sustainability has been a core element of our activity for many years, incorporated across all elements of the business from our buildings to our finances.

We have close relationships with asset owners, occupiers and local communities. Our track record and long-term collaborative approach has helped us uncover new off-market opportunities such as the recent transactions with Lazari Investments and 230 Blackfriars Road SE1. We have also been selected as preferred bidder for The Moorfields Estate EC1.

The 2021 employee survey again demonstrated a high level of engagement and widespread job satisfaction and, as we come back together after the lockdowns of the last two years, our common focus and culture have been preserved and strengthened.

I wish to thank all the staff at Derwent London for their continuing hard work through 2021. I would also like to congratulate Emily Prideaux on her appointment as an Executive Director in March 2021, and Sanjeev Sharma who joined the Board as Non-Executive Director in October. Simon Fraser retired as Non-Executive Director in October and the Board thanks him for his substantial contribution over nine years. He was replaced as Senior Independent Director by Helen Gordon. In addition, I would like to say thank you on behalf of the Board to David Silverman who has played an integral role in our investment acquisitions and disposals and will be stepping down as an Executive Director and leaving the Group in April 2022.

The board is confident that Derwent London has the right strategy and business model to meet evolving occupier and wider stakeholder requirements and to continue to deliver above average long-term returns for shareholders.

Mark Breuer
Chairman

CEO STATEMENT

The past year was an important one for Derwent London and was our busiest period for portfolio activity for many years.

There was a significant recovery in net asset values, valuations and profitability in 2021. The improvement in occupational and investment markets, backed by rental collection returning to close to pre-pandemic levels, has given us the confidence to progress acquisitions and development plans. Projects include commencement of 19-35 Baker Street W1 and design finalisation following resolution to grant planning consent at Network Building W1. In addition, we are progressing plans for Bush House WC2 plus other smaller projects including Environmental Performance Certificate (EPC) upgrades.

Investment activity has been focused on restocking our development pipeline with future 'super-sites'. These are substantial regeneration schemes where we see potential to at least double the floor area. We have favoured locations benefitting from the twin drivers of strong forecast demand and low availability of high quality space. Based on early appraisals, these have potential for attractive development returns. Several should also appeal to the Life Sciences sector, a market where we have undertaken considerable research. We have sold £405.1m of buildings, for £9.7m above book value, where we expected to see lower returns.

We secured £13.7m of new lettings in 2021 at an average +3.6% above December 2020 ERV, with a further £31.9m of asset management activity in line with ERV. There was a distinct shift of emphasis among our occupiers to taking a more strategic and longer-term approach to their occupational needs.

Return to the office and changing working patterns

Our buildings are getting busier. Hybrid working is here to stay, but our occupiers are planning for peak occupancy as daily utilisation varies through the week. Tenants are increasingly demanding of their space, requiring it to fulfil multiple functions. Offices need to be design-led and amenity-rich, and able to adapt to a more agile workforce. We believe our approach of delivering 'long-life, loose-fit, low carbon' space with enhanced amenity, 'Intelligent Building' infrastructure, and employee wellbeing at its core will exceed these evolving requirements, as we are seeing in DL/78 in W1.

London is a vibrant global city, with world class restaurants, theatres and culture, whose resilience has been underscored by the speed with which activity has returned. We look forward to the opening of the Elizabeth line and capacity returning to the wider transport network.

Sustainability and net zero carbon

In 2021 the Group made good progress towards its net zero carbon ambitions following publication of our pathway in 2020. In the short term, our portfolio emissions will likely increase as office occupation levels continue to rise, but we remain well within our science-based targets.

Our portfolio is 99% compliant with 2023 EPC legislation (EPC 'E' or better). Including projects, 61% of the portfolio is compliant with potential 2030 legislation ('A' or 'B') by ERV. This compares with JLL's estimates for the wider London office market that only 23% is 2030 compliant by floor area. For those buildings with EPC 'C' or below, external consultants have now completed their initial report into capex requirements to uplift EPC ratings to 'B' or above. In line with our previous indications, we expect to invest c.£97m to 2030, prior to any service charge recovery. A proportion is already reflected in our valuations and existing capex plans.

As part of our sustainability agenda, we progressed Company-led initiatives this year as well as participation at COP26 to bring greater focus on the actions required across the industry. Our inaugural Stakeholder Day and net zero carbon occupier survey identified a number of potential collaboration opportunities to reduce our combined impact on the environment, ambitions shared by many of our occupiers. We also successfully issued a Green Bond, raising £350m for 10 years at a 1.875% coupon. This increased our total green debt potential to £650m.

Development projects

We have two large developments and one smaller refurbishment due to complete in H1 2022. At Soho Place W1, the offices are either pre-let or pre-sold with a rent of £17.0m, leaving the retail element still available. We are confident of leasing the retail space given its excellent location and prospects with the opening this year of the Elizabeth line and a recovery in international tourism.

At The Featherstone Building EC1, which has an ERV of £8.6m, there has been a marked increase in enquiries as the latest work from home (WFH) guidance was lifted. Interest has come for a range of size requirements and business sectors and we are in no doubt as to the building's prospects supported by a positive outlook for the Tech Belt.

We have pre-let the entirety of Francis House SW1 to Edelman at a substantial premium to ERV. This follows our letting earlier in the year to Fora at our adjoining recently refurbished 6-8 Greencoat Place SW1, also comfortably above ERV. The combined rent roll of these two buildings is £5.1m.

In Q4 we commenced our latest major development at 19-35 Baker Street W1 which extends to 298,000 sq ft. Completion is expected in 2025. We also progressed plans for our next two projects. At Network Building W1, resolution to grant planning consent was secured for both offices and a Life Sciences scheme. Depending on the outcome of early occupier discussions for each option, a decision will be made shortly on which we take forward. At Bush House WC2, we await the outcome of our planning application for a refurbishment and extension. Together, these two projects have the potential to deliver up to 267,000 sq ft of high quality space.

While the economy is recovering, short and medium-term inflationary pressures are becoming embedded in market expectations. Build cost inflation picked up in the year and we expect this to rise further. At 19-35 Baker Street, the demolition and build contracts have been signed and 97% of capex on the office element is now fixed, within budget.

Derwent London's high quality team

The events of the last two years have provided clear demonstration of the quality of the Derwent London team. Employees across the business responded with energy and commitment to minimise disruption and provide pragmatic and practical solutions to the challenges that arose. Derwent London is an inclusive and respectful employer that welcomes diversity and promotes equality. We were particularly pleased that the Group was awarded National Equality Standard accreditation in 2021, coming in the top 5% of accredited companies.

I am delighted that Mark Breuer, Emily Prideaux and Sanjeev Sharma all joined the board in the year. Helen Gordon was appointed as Senior Independent Director replacing Simon Fraser who retired. I was also pleased to announce three internal promotions to the Executive Committee: Vasiliki Arvaniti, Head of Asset Management; Victoria Steventon, Head of Property Management; and, John Davies, Head of Sustainability.

Finally, I want to thank David Silverman who will step down from the Board and, after almost 20 years of service, will leave the Group in April 2022. David has made a considerable contribution to the Group's success and we wish him well for the future.

Outlook

Our forward ERV guidance has improved through the last 12 months. We estimate our ERVs will grow in the range 0% to +3% in 2022 as an average across our portfolio. As the economic recovery gathers pace, we expect this will translate into sustained future growth. With continuing strong investment demand, we expect investment yields to remain firm.

London is firmly coming back to life. It continues to attract global talent as a leading city where people want to live and work. Our 'long-life, loose-fit, low carbon' approach, combined with the delivery of distinctive next generation developments, puts us in an excellent position to benefit from the emergence of rental growth for the best properties.

Paul Williams
Chief Executive

CENTRAL LONDON OFFICE MARKET

See Appendix 1 for supporting graphs

With a strong finish in Q4, both leasing transactions and investment volumes in 2021 more closely resembled long-term averages than in 2020 when Covid-19 pandemic disruption was at its greatest.

Whilst the UK started 2021 in lockdown this was gradually eased as the year progressed. With the success of the UK Government's vaccination programme, restrictions were lifted in July and only temporary and less severe restrictions re-imposed in response to emergence of the Omicron variant in December. Confidence has subsequently rebounded.

According to CBRE, office take-up across central London in 2021 was 9.1m sq ft, up 63% on 2020, 26% below the long-term average (12.3m sq ft). This was well spread across a number of different business sectors: Creative industries (TMT) accounted for 22% with Banking & Finance at 21% and Professional at 20%. As 2021 progressed, the level of active requirements rose and demand began to crystallise. The amount of space under offer at year end nearly doubled from 2.1m sq ft at December 2020 to 3.8m sq ft which is +28% above the long-term average of 3.0m sq ft.

Vacancy rates remain high at 9.3% (December 2020: 7.9%) against the longer-term average of 5.2% but empty space was concentrated in the City core and Docklands which represents 56% of the total. The West End vacancy rate was lower at 5.2% (December 2020: 5.5%; long-term average: 4.2%). In line with recent trends, lower quality tier two space makes up the majority of the vacancy at 74% of the total. Tenant-controlled space accounted for over one-third of the vacancy at the start of 2021, but since May there has been a steady removal of this space from the market, finishing the year at 29%. This suggests that occupiers view their space as increasingly important. Availability of tier one space remains restricted and below trend emphasising a polarisation of the market.

Commitment to speculative developments thinned through the year with several schemes deferred. At December 2020, CBRE estimated that 23.8m sq ft of space would complete between 2022 and 2024 but by December 2021 this had fallen by 11% to 21.3m sq ft. Of this, 11.6m sq ft was under construction of which 4.0m sq ft (34%) was pre-let and a further 9.7m sq ft was proposed. This leaves 7.6m sq ft of speculative space which is below the longer-term trend and less than the level of active demand estimated by JLL at 8.3m sq ft.

Headline prime rental growth for central London was 7.4% in 2021 and typical rent-free incentives reduced from c.27 months on a 10-year term to c.24 months. This market average masks differences by location as well as a divergence between tier one and tier two space. Rents for the former performed more strongly and we anticipate this trend will continue in the future.

There has been much debate about the 'green premium' vs the 'brown discount'. Recent analysis by both Knight Frank and JLL, corroborated by our own experience, suggest a building's leasing potential is increasingly influenced by environmental credentials, such as BREEAM and EPC ratings and importantly wellness and amenity provision. As changes to EPC legislation draw closer, the focus on sustainability is widely expected to increase.

We have outlined our expectations for rental growth in 2022 in the Chief Executive's statement.

London a diverse city with broad appeal to business

London is a truly global city which appeals to a broad range of businesses. Over the last five years, Business Services has accounted for 24% of take-up, Creative Industries 22% and Banking & Finance 20%.

The last few years have seen a number of occupiers eschew traditional sub-markets in the flight to quality and focus on emerging areas such as King's Cross and Paddington which have responded with substantial amounts of new development. These new areas are approaching their natural capacity and the volume of development is consequently reducing. Established areas such as the Tech Belt and emerging areas such as Southbank, which benefit from strong transport links and connectivity but which have not seen the same levels of overall regeneration, are firmly on occupiers' radars.

The pattern of 'foot loose' occupiers being location agnostic has been well documented. Occupiers are predominantly focused on the quality of space and its environmental credentials along with amenity and transport links rather than just location.

Since the EU referendum in June 2016, despite cautious expectations from a range of economic forecasters, London has experienced growth in both its population (+233,000 between 2016 and 2020) and jobs (+177,000 between June 2016 and September 2021). The outlook for employment and economic growth is positive. Oxford Economics and Experian both forecast a strong recovery in economic output and employment for the UK and for London.

A strong London economy with high and growing employment is supportive of the office sector over the longer-term. With constrained availability of high quality space, rental growth forecasts across the major firms of agents rebounded through 2021. Most now expect positive rental growth in 2022 and 2023. With our strategy of providing best in class differentiated buildings we are well placed to capture this.

Agile working & the war for talent

From engagement with our occupiers, it is clear that the office fulfils multiple functions. It is a place to work, collaborate, innovate, interact, produce and mentor. Some of these tasks can be fulfilled remotely but often with less positive outcomes. We have also heard consistently how the office needs to be representative of a business' culture and brand and our occupiers have stated that returning to the office is positive for business.

Global lockdowns have shone the spotlight on agile working but this is not an entirely new trend. Employers have responded by offering employees greater flexibility, in part to aid staff retention and recruitment in the war for talent, as technology has emerged that supports hybrid working.

Prior to the reimposition of WFH guidance at the end of 2021, there were clear signs of a return to the office for an increasing proportion of the workforce. Few businesses had formally mandated employees to return given the associated risks, but office utilisation was on a clear upward trend with the West End busier than the City core, in line with trends seen across our villages. Mid-week office utilisation was noticeably higher than on Mondays or Fridays, demonstrating more agility amongst the workforce. Our experience, in common with findings of market research by the agents, is that occupational decisions are being based on peak occupancy requirements and mid-week utilisation levels.

Within our portfolio we have seen a reconfiguration of spaces with a shift in the ratio away from fixed desks towards more collaboration space and meeting rooms with video-conference facilities. At the same time, occupational densities are being reduced in a reversal of the 'max-packing' trend from recent years. Our own experiences show that, as businesses return to looking to the future, there is a clear recognition of the importance of the role the office plays in bringing people and teams together to enhance communication, mentoring, creativity and importantly productivity.

London Underground usage gathered momentum following the lifting of WFH guidance in July 2021, reaching in excess of 60% of pre-Covid levels in October and November. Since the latest WFH guidance was rescinded in mid-January 2022, travel has begun to recover.

A return to normal service levels on the broader transport network will be crucial in facilitating the return to the office. The additional capacity that will be created with the opening of the Elizabeth line will also help. Provision of 'end of trip' amenity, such as bike facilities and showers, has come more into focus as increasing numbers have switched away from public transport to bicycle commuting.

London an attractive investment market

Investment volumes were weighted towards H2 2021 and in particular Q4 with the completion of several large deals. CBRE estimates £10.0bn of transactions completed in the year, +33% above 2020 although 16% below the long-term average. Investor demand is concentrated on either high quality buildings with long leases let to good covenants or 'value-add' opportunities, including 'build to prime' schemes, with strong competition for these buildings. According to CBRE prime yields compressed 25bp over the year in the City and West End to 3.75% and 3.25% respectively.

London's positive yield gap compared to other global cities, combined with its other attributes, namely a high level of market transparency, strong historic liquidity, long lease lengths and robust legal system, have helped it retain its relative attractiveness to global investors. CBRE estimates there is c.£40bn of potential investment demand targeting London offices which compares to current supply of £3.7bn. Asian investors account for 46% of overall demand, followed by Europeans at 32%, North Americans at 17% and Middle Eastern investors at 5%. UK investors were most active in 2021 accounting for 35% of activity followed by North Americans at 26%, Europeans at 22% and Asians at 14%. As air travel restrictions continue to ease, we expect the level of international investment to rise.

VALUATION

See Appendix 2 for supporting graphs and tables

The Group's investment portfolio was valued at £5.7bn on 31 December 2021. There was a valuation surplus of £142.9m for the year, which after accounting adjustments of £9.8m (see note 11), gives a reported surplus of £133.1m. This performance represents an underlying valuation increase of 3.5%, and a reversal of the 3.0% decline seen in 2020. By location, our central London properties, which represent 99% of the portfolio, increased in value by 3.4% with the West End +3.9% and City Borders +2.5%. The balance of the portfolio, our Scottish holdings, was up 9.9%.

Our portfolio's underlying capital growth outperformed the MSCI Quarterly Index for Central London Offices, at 2.5%, but underperformed the wider UK All Property Index which increased by an exceptional 11.5%.

Looking at EPRA metrics, our estimated rental values (ERV) in 2021 fell marginally by 0.2% against a decline of 2.8% in 2020. Our office ERVs were up slightly at 0.2%. Our retail rental values, where our exposure is limited, fell by 5.8% focused in H1.

The investment market remained buoyant, especially for quality buildings and secure income streams, which helped drive the portfolio's valuation yields lower. Accordingly, the true equivalent yield tightened 24 basis points from 4.74% to 4.50% over the year. It is worth noting that the 250 Euston Road NW1 acquisition accounted for 7 basis points of the yield movement. The EPRA initial yield is 3.3% which, after allowing for the expiry of rent frees and contractual uplifts, rises to 4.4% on a 'topped-up' basis.

The total property return for the year was 6.3%, which compares to the MSCI Index of 5.9% for Central London Offices and 16.5% for UK All Property, the latter driven mainly by very strong yield compression and rental growth for industrials and logistics.

We are on site with three major developments, each at different stages of delivery. Soho Place W1 and The Featherstone Building EC1 are nearing completion with delivery scheduled for H1 2022. Following demerger of our properties held with The Portman Estate, we obtained vacant possession of 19-35 Baker Street W1 in September 2021, commenced demolition and have recently signed the main building contract. Completion is scheduled for 2025. Further details on all these projects are set out under 'Development & Refurbishment' below. Combined, they were valued at £577.1m in December 2021 and delivered a 9.2% valuation uplift over the year, after adjusting for capital expenditure. An additional £355m is required to complete these projects. Their combined ERV is £47.1m, of which 36% is pre-let. Excluding these developments, the portfolio valuation increased by 2.9% on an underlying basis.

Portfolio reversion

Our contracted annualised cash rent on 31 December 2021 was £178.4m. This 5.7% decrease in the year was principally due to the loss of income from the disposal of the Johnson Building EC1 and Angel Square EC1 and obtaining vacant possession of 19-35 Baker Street, ahead of redevelopment.

With a portfolio ERV of £293.9m there is £115.5m of potential cash reversion. Within this, £54.6m is contracted through rent-frees, fixed uplifts and indexation. Under IFRS, a large proportion of this contracted income is already recognised within the accounting gross rental income. Our on-site developments and major refurbishments could add £50.0m, of which £17.0m is pre-lettings at Soho Place W1 and £2.9m at Francis House SW1. There is then £7.2m of potential income from several ongoing smaller projects across the portfolio. ERV on space available to occupy is relatively small at £3.8m, reflecting our EPRA vacancy rate of 1.6%, which is down slightly from the 1.8% at the start of the year. With Soho Place and The Featherstone Building being delivered in the next few months, if no further pre-lets are secured the vacancy rate would rise to 5.9% upon their completion. There is then £5.8m of reversion from anticipated rent reviews and expiries. However, this is offset by £5.9m already included within contracted uplifts where there is rental indexation and minimum uplifts on rent reviews to levels above their current ERV.

LEASING, ASSET & PROPERTY MANAGEMENT

See Appendix 4 for supporting graphs and tables

Rent collection

Prior to Covid-19, the Group typically collected over 99% of its rent from tenants within two weeks of the quarter date, with negligible bad debts. This pattern changed in early 2020 with the pandemic and subsequent lockdown as we supported those of our occupiers most in need. Staying close to our customers, combined with the subsequent recovery in 2021, helped us deliver a high level of recovery of deferrals agreed in 2020. Through 2021, office collection rates improved and have now returned to pre-Covid levels while retail (only 8% of income) continued to lag. Refer to Appendix 4.

Lettings

Leasing activity in 2021 totalled £13.7m across 50 transactions despite having little space available. Activity, however, picked up following publication by the Government of the 'Roadmap out of lockdown' at the end of Q1. Three deals – to Depop at 20 Farringdon Road EC1, Fora at 6-8 Greencoat Place SW1 and Edelman at Francis House SW1 – accounted for half of new rent secured. On average, new leases were signed at +3.6% above December 2020 ERV. Pre-lettings accounted for £5.8m or 43% by value in six transactions.

Since the start of 2022, a further four leases across 28,300 sq ft have been signed with a rent roll of £1.9m pa at +8.7% above December 2021 ERV.

Letting activity 2021

	Let		Performance against Dec 20 ERV (%)	
	Area sq ft	**Income £m pa**	**Open market**	**Overall[1]**
H1	79,200	3.9	(1.0)	(1.6)
H2	159,000	9.8	5.9	5.9
2021	**238,200**	**13.7**	**3.9**	**3.6**

[1] Includes short-term lettings at properties earmarked for redevelopment

Principal lettings in 2021

Property	**Tenant**	**Area sq ft**	**Rent £ psf**	**Total annual rent £m**	**Lease term Years**	**Lease break Year**	**Rent free equivalent Months**
H1							
20 Farringdon Road EC1	Depop (pre-let)	33,500	52.50	1.8	5	3	9, plus 4 if no break
Tea Building E1	Soho House	7,600	50.00	0.4	10	-	24
H2							
Francis House SW1	Edelman (pre-let)	38,200	76.00	2.9	15	10	25, plus 9 if no break
6-8 Greencoat Place SW1	Fora (pre-let)	32,400	68.50	2.2	15	-	34
Charlotte Building W1	The & Partnership	14,900	67.50	1.0	5	-	10
80 Charlotte Street W1 (resi)	Q Apartments	13,400	52.10	0.7	10	-	3
The White Chapel Building E1	Emperor Design	12,700	49.50	0.6	10	5	12, plus 6 if no break
Total		**152,700**	**62.90**	**9.6**			

Asset management

At the start of 2021, 17% of passing rent was subject to break or expiry in the year. In aggregate, 77% of breaks and expiries were retained or re-let in the year. Looking forward, breaks and expiries in 2022 account for 9% of passing rent, already considerably below the 13% at June 2021.

In Q1, renewals and regears were mainly short-term roll overs as occupiers continued to adopt a 'wait and see' approach to their office space. As the year progressed, there was a notable shift towards longer-term solutions. 27 lease renewals and 43 lease regears completed in 2021. The table below provides further details.

Asset management 2021

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 20 ERV %
Rent reviews	251,500	9.9	11.9	20.2	1.1
Lease renewals	114,000	5.2	5.5	7.3	(0.9)
Lease regears	287,200	14.1	14.5	2.3	(0.5)
Total	**652,700**	**29.2**	**31.9**	**9.2**	**0.0**

Excludes transactions on assets subsequently sold or taken back for major redevelopment

Property management

Property management is the main point of contact with our occupiers. 2020 and 2021 were busy years for the team who responded proactively to provide pragmatic and practical solutions for occupiers while also rolling out and maintaining Covid-19 secure protocols across our estate. We have also embraced new technologies to enhance cleaning and air safety. The team has introduced new initiatives to drive customer engagement. As well as encouraging a return to the office, some of these events have helped raise money to support local charities.

We re-tendered major contracts to ensure high and consistent quality and value for our occupiers and to ensure that high standards of customer experience are delivered consistently. Our property managers work closely with our Sustainability team to deliver on our net zero carbon ambitions, for example through co-ordination of plant maintenance.

ACQUISITIONS AND DISPOSALS

Through 2021, a nuanced change was made to the Group's strategy. For the time being we expect to retain more of our larger recent developments where we see good growth. At the same time, we may look to sell some of those buildings where we believe returns will be more limited. Disposal proceeds will be reinvested into new acquisitions and the development programme. Our investment activity through 2021 has been closely aligned to this.

The Group's investment team had a very busy year. We invested £417.5m in the acquisition of eight buildings. The Lazari Baker Street JV and 230 Blackfriars Road are potential future 'super-sites' where we see substantial uplifts in floor area when compared to the existing buildings.

Acquisitions

Property	Date	Area sq ft	Total after costs £m	Net yield %	Net rental income £m pa	Net rental income £psf
H1 2021						
Holford Works WC1 (long leasehold)	Q2	41,600	23.7	6.9	1.6	40.00
H2 2021						
Bush House WC2 (leasehold)	Q3	103,700	14.5	-	-	-
250 Euston Road NW1	Q3	165,900	190.3	2.5	4.7	28.30
171-174 Tottenham Court Road W1	Q3	16,200	24.3	2.6	0.6	57.50
Baker Street W1 JV (50% share)	Q4	61,100[1]	64.0	4.0	2.6	42.50
		388,500	**316.8**	**-**	**9.5**	**-**
19-35 Baker Street W1 (headlease regear)	Q4	n/a	100.7	n/a	n/a	n/a
		-	**417.5**	**-**	**9.5**	**-**
2022						
230 Blackfriars Road SE1	Q1	60,300	58.3	3.5	2.1	41.00

[1] Group 50% share

In addition, the Group was selected as preferred bidder for The Moorfields Estate EC1 in December 2021. The c.400,000 sq ft of buildings, on a 2.5 acre site, has potential for a substantial redevelopment and is considered another future 'super-site'.

Major disposals completed in 2021 realised net proceeds of £396.4m, rising to £405.1m including smaller sales. After year-end, contracts were exchanged for the sale of New River Yard EC1 for net proceeds (after rental top ups) of £66.0m.

Major disposals

Property	Date	Area sq ft	Net proceeds £m	Net yield to purchaser %	Rent £m
2021					
Johnson Building EC1	Q1	192,700	165.6	4.1	7.3
Angel Square EC1	Q3	126,200	85.0	-	0.0 [1]
The Portman Estate properties[2]	Q4	50,600	45.1	-	-
		369,500	**295.7**	**-**	**7.3**
19-35 Baker Street W1 (headlease surrender)	Q4	n/a	100.7	n/a	n/a
		369,500	**396.4**	**-**	**7.3**
2022 exchanged					
New River Yard EC1	Q1	70,700	66.0[3]	4.5	3.3

[1] Sold with vacant possession
[2] Includes 16-20 Baker Street, 27-33 Robert Adam Street, 17-39 George Street and 26-27 Castlereagh Street W1
[3] After rental top ups

Restructuring of The Portman Estate Baker Street holdings

At the end of Q3 2021, our Baker Street holdings with The Portman Estate (TPE) was restructured. This was a longstanding 55:45 jointly owned company with TPE which owned properties in Baker Street W1 and the surrounding area. The restructuring involved Derwent London buying in the 45% of shares previously owned by TPE, resulting in the Group taking full ownership of the development site at 19-35 Baker Street and TPE granting a new 129-year headlease over the site. Other properties owned within the company were transferred to TPE and the Group made a balancing payment of £6.2m. Refer to the Finance section for further details. This set of transactions are excluded from the tables above.

DEVELOPMENT & REFURBISHMENT

See Appendix 5 for supporting graph and tables

At the end of 2021 we were on site at three major projects: Soho Place W1, The Featherstone Building EC1 and 19-35 Baker Street W1.

Soho Place is due to complete in H1 2022. The office space at 1 Soho Place was pre-let to Apollo Group and G-Research in 2019. When combined with the forward-sale of 2 & 4 Soho Place, which comprises 18,400 sq ft of offices and a 40,000 sq ft theatre pre-let to Nimax, all of the office space is either pre-let or forward-sold. Scheme profitability has benefitted from the strong performance of the office element. The marketing campaign for the 36,000 sq ft of retail space is due to be launched in April. We are confident in the long-term attractions of this retail location above the Elizabeth line station at the junction of Oxford Street and Charing Cross Road. The ERV of this space stabilised through H2 2021 with CBRE's rental expectation now £3.1m. The development will be net zero carbon and we are targeting a BREEAM 'Outstanding' rating on the commercial element.

The Featherstone Building is due to reach practical completion in H1 2022 with an ERV of £8.6m. The space incorporates many of the features of White Collar Factory EC1, such as concrete core cooling, openable windows and generous floor to ceiling heights as well as high quality amenities. Combined with the location in the heart of the Tech Belt, we remain confident in the prospects for this building. Current enquiries are for a range of different size requirements and we have seen an increase over recent weeks in enquiry levels. The development will also be net zero carbon, while also incorporating our 'Intelligent Building' infrastructure and with WELL 'Enabled' credentials. We are targeting a BREEAM 'Outstanding' rating.

On-site works at 19-35 Baker Street W1 commenced in Q4 2021. This scheme extends to 298,000 sq ft, a 108% uplift on the pre-existing space, the majority of which is offices (218,000 sq ft). Most of the retail is subject to a forward sale agreement with The Portman Estate. The Group has entered an agreement for Native Land to act as our development partner for the private residential, providing funding as well as development and marketing advice in exchange for which they will receive a share of the profits.

The 19-35 Baker Street demolition contract was secured below budget and the main building contract, which was finalised in Q1 2022, was in line with budget. 97% of capex on the office element is now fixed effectively mitigating our exposure to further build cost inflation. Capital expenditure is estimated at £266m and we will use capacity under our green finance facilities to fund eligible expenditure. The development has been designed to be 'long-life, loose-fit' with 3.2m floor to ceiling heights, integrated 'Intelligent Building' infrastructure, double height lobby, roof terraces and generous public realm. The building will be net zero carbon with a target of BREEAM 'Outstanding', NABERS 4 Star (our first NABERS UK certified scheme) and WELL 'Enabled' credentials on the office element. Completion is due in 2025.

We completed our 32,400 sq ft refurbishment at 6-8 Greencoat Place SW1 in June 2021 which was effectively pre-let to Fora. In Q4 2021, we pre-let the whole of our on-site refurbishment at Francis House SW1 (38,200 sq ft) to Edelman. Both these transactions were at premiums to ERV.

In 2021, the Group secured a dual planning consent for Network Building W1: offices (137,000 sq ft) and lab-enabled Life Sciences (112,000 sq ft). Both benefit from ground floor retail. On a speculative basis, we would expect to deliver the office scheme but we have had an early approach from a life sciences operator. On-site works are expected to commence in H2 2022 with capex for either option of c.£100m.

At Bush House WC2, a planning application was submitted in 2021 for a c.26,000 sq ft extension to the current building which would increase the overall floor area from 103,700 sq ft to c.130,000 sq ft. On-site works are expected to commence later this year on either the larger scheme, subject to planning, or refurbishment of the existing building.

Beyond the near-term pipeline, a further 1.7m sq ft, or 31% of the portfolio, has development potential.

FINANCE REVIEW

See Appendix 6 for supporting graphs and tables

Introduction

The past year has seen a return towards more normal business conditions punctuated by periods of elevated uncertainty when levels of Covid-19 infection increased. With lockdowns having eased and the UK's very successful vaccination programme providing some protection from the worst impacts of 2021's Covid-19 variants, activity across most of our stakeholder groups has gradually recovered. This is evidenced by many economic indicators including GDP growth, employment and investment. Our own experiences have borne this out with office rental collections now almost at pre-Covid levels and most of our occupiers planning further ahead once more. We have responded with a substantial investment programme in new future projects and have reshaped the business more than in any year since the LMS merger in 2007.

Challenges remain with businesses facing increased compliance requirements and staff shortages while also tackling the climate change and biodiversity emergencies. We take these issues very seriously but also see them as opportunities to differentiate our product and business while becoming ever more customer focused. Cost inflation is now also being widely felt, though views differ on how long it will last. However, the economy is expected to grow and many of London's businesses are actively recruiting and expressing greater confidence in the future than for some time.

Financial overview

As noted in last year's report and with a subtle change in emphasis announced during 2021, we have continued to rebalance the portfolio. We have made disposals where we see more challenging future returns and replaced them with some new acquisitions to provide future projects and 'super-sites' for the next decade or so. This reshaping is not finished and we hope to secure further value-add opportunities in the future which may see balance sheet gearing rise a little higher. I have previously noted our shift in focus, with future value creation a higher current priority than income growth; this may provide some short-term impact on earnings until we are able to replace all the income lost from recent disposals. However, we now anticipate income reversion increasing as meaningful rental growth comes through for the strongest office product.

Our asset and property managers continue to engage with our occupiers to extend leases, remove breaks and minimise voids. With relatively strong property revaluations and much lower impairment provisions booked in 2021 than in 2020, this has helped 2021 earnings rise significantly with IFRS earnings up 294.33p to 224.99p per share and EPRA earnings per share up 9.7% to 108.8p. I cannot recall a more active year for our development team either and all this activity helped the Group produce a total return of 5.8%.

Turning to liquidity, as expected the Group's rental collections bounced back well in 2021 but we also executed some very successful treasury transactions, notably our new £350m 1.875% 10-year unsecured green bond issue in November. This is further evidence of our commitment across the business to a net zero carbon future.

See Appendix 6 for financial highlights table

Return to growth

The portfolio showed a return to revaluation growth in 2021. This came from downward yield shift for well let offices together with development profits from recent schemes and modest ERV growth for the best properties. With IFRS earnings comfortably exceeding dividends paid, the closing EPRA net tangible assets (NTA) per share was 3,959p, up 3.9% from December 2020. Similarly, IFRS equity shareholders' funds increased over the year by 4.2% to £4.44bn.

	2021 p	**2020 p**
Opening EPRA NTA	3,812	3,957
Revaluation movement	119	(176)
Profit on disposals	9	5
EPRA earnings	109	99
Ordinary dividends paid	(75)	(73)
Interest rate swap termination costs	(2)	(2)
Share of joint venture results	(12)	-
Other	(1)	2
Closing EPRA NTA	**3,959**	**3,812**

Derwent London continues to focus on property returns, recurring earnings, sustained dividend growth and modest leverage as well as our Net Zero Carbon Pathway and a number of other ESG and stakeholder-focused metrics. However, we believe that total return (ie dividends paid plus EPRA Net Tangible Assets growth per share) is the best single measure of our financial performance. After adding back the dividends paid, the Group's total return (see note 27) recovered to 5.8% in 2021 after the 1.8% decline seen in 2020.

Property portfolio

Our property portfolio was externally valued at £5.6bn (excluding the new joint venture) as at 31 December 2021, allocated across the balance sheet as follows:

	Dec-21 £m	**Dec-20 £m**
Investment property	5,359.9	5,029.1
Non-current assets held for sale	102.8	165.0
Owner-occupied property	49.3	45.6
Trading property	32.2	12.9
Property carrying value	5,544.2	5,252.6
Accrued income (non-current)	159.3	146.4
Accrued income (current)	24.1	19.6
Grossing up of headlease liabilities	(70.4)	(66.5)
Profit share due to TfL	(14.8)	-
Revaluation of trading property/other	3.9	3.4
Fair value of property portfolio	**5,646.3**	**5,355.5**
Fair value of properties held in joint venture (50%)	**50.0**	**-**

The year was marked by transactions with The Portman Estate (TPE) and Lazari Investments Ltd (Lazari) which have helped unlock two different and large-scale development opportunities in Baker Street W1. Further opportunities for future growth have also come from acquisitions announced subsequently in 2021 but their impact will be felt more in the medium term.

Firstly, we acquired TPE's 45% £53.4m non-controlling interest in Portman Investments Baker Street Ltd (PIBS) on 30 September 2021. PIBS was a longstanding 55%/45% joint company holding properties in two main blocks adjoining Baker Street and George Street. Because it was majority owned and controlled by the Derwent London plc group, it was consolidated within our accounts for many years subject to a non-controlling interest. As part of this overall transaction, properties in George Street, Baker Street, Robert Adam Street and Castlereagh Street W1 totalling £45.2m were disposed of to TPE. The last part of the transaction was to surrender the existing headleases to TPE with a new 129 year headlease being granted by TPE across the 19-35 Baker Street site. This surrender and regrant of the headleases has been treated as a £100.7m disposal and subsequent acquisition though no cash passed between the parties on this element as the transactions netted off; the net cash that passed from Derwent to TPE on completion of the various steps outlined here was £6.2m. The result is that the Group now has a long leasehold interest in the newly geared development site at 19-35 Baker Street where work is underway to demolish the old buildings.

The other major transaction was the acquisition of two buildings from Lazari Investments in October 2021 and the formation of a 50/50 joint venture. The buildings acquired were 250 Euston Road NW1 for £190.3m and 171-174 Tottenham Court Road W1 for £24.3m, both inclusive of costs. The joint venture was formed in October as a Limited Partnership; each partner has an effective 50% share in a deadlocked structure and our 50% interest is therefore held within Investments (note 13) rather than being included within the Property portfolio (note 11). The joint venture holds three leasehold properties in Baker Street W1 which are currently income producing but where the intention is to work up a major new scheme subject to planning, site assembly and regearing of the headlease. The Group's share of the properties acquired cost £64.0m but was subsequently revalued at £50.0m as at 31 December 2021 giving a JV revaluation deficit for the year of £14.0m. It is expected that the valuation should rise in due course upon a successful planning and headlease gearing outcome.

In addition to the transactions above, other property acquisitions during the year included £23.8m for the long leasehold interest at Holford Works WC1 and £14.5m for the short leasehold interest at Bush House. Altogether, acquisitions totalled £353.6m. Capital expenditure in 2021 increased to £166.1m plus £12.0m of capitalised interest bringing total additions to £531.7m in the year. Disposals included the Johnson Building EC1, which was disclosed as an 'asset held for sale' at the start of 2021, and Angel Square EC1, which completed in August 2021. The properties within 'non-current assets held for sale' at 31 December 2021 were New River Yard and 2 & 4 Soho Place W1, with carrying values of £63.7m and £37.5m, respectively. New River Yard exchanged in January 2022 with completion expected in Q2 2022 and contracts for the sale of 2 & 4 Soho Place have been exchanged with completion expected later in 2022.

The trading property held at 31 December 2021 included the last remaining residential apartment at Asta House W1. This was subsequently sold post the year-end and brings to an end our development of these units connected with the 80 Charlotte Street scheme. The other item in trading stock was Welby House SW1 which was written down by £1.4m in 2021.

The overall wholly-owned property portfolio valuation performed much better than in 2020 and gave rise to a total revaluation surplus for the year of £130.8m after accounting adjustments, of which £3.7m related to our owner-occupied head office at Savile Row. The latter figure is shown in the Group Statement of Comprehensive Income rather than the Income Statement.

The balance of unamortised letting and legal fees plus the accrued income from the 'straight-lining' of rental income under IFRS 16 to spread the effect of incentives and fixed uplifts over the lease terms has increased to £183.4m (2020: £166.0m). This balance rises as income is recognized through incentive periods and falls gradually once the cash flows stabilize. The grossing up of headlease liabilities increased the carrying values of the leasehold properties by £70.4m (2020: £66.5m) but there is an equal and opposite liability within 'net debt' (note 18) and the profit share payable to TfL on the Soho Place scheme of £14.8m makes up the remaining balance.

Rent collection and impairment of receivables

One of the clearest barometers of the Covid-19 period for the real estate sector has been the impact on rent collection rates. This was very noticeable in the early lockdown days of H1 2020, particularly for retail and hospitality tenants or for those in the travel and entertainment businesses, but had already started to recover significantly in H2 2020. It is good to report that rent collection rates have continued to move back towards pre-Covid levels for our office portfolio through 2021 and into 2022. For the December 2021 quarter day rents, we have now collected 98% of office rents and 97% of overall rents, including our share of the new joint venture. The retail and hospitality sectors continue to lag but are showing much stronger payment performances than in 2020 and occupiers are now generally not asking for concessions beyond some requests for monthly rental payments.

	Dec 20 quarter		**Mar 21 quarter**		**Jun 21 quarter**		**Sep 21 quarter**	
	Office	**Retail/ Hospitality**	**Office**	**Retail/ Hospitality**	**Office**	**Retail/ Hospitality**	**Office**	**Retail/ Hospitality**
Rent received to date	99%	73%	98%	68%	99%	81%	100%	88%
Outstanding	1%	9%	1%	13%	1%	12%	0%	11%
Rent free granted	0%	18%	1%	19%	0%	7%	0%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	£41.4m	**£2.9m**	**£40.0m**	**£3.0m**	**£38.8m**	**£2.6m**	**£38.5m**	**£2.5m**

	Dec 21 quarter		
	Office	**Retail/ Hospitality**	**Total**
Rent received to date	98%	83%	**97%**
Due later in the quarter[1]	1%	4%	**1%**
Outstanding	1%	13%	**2%**
Rent free granted	0%	0%	**0%**
Total	**100%**	**100%**	**100%**
	£40.3m	**£2.3m**	**£42.6m**

[1] Principally monthly receipts

Impairment reviews using the expected credit-loss model in accordance with IFRS 9 have continued in 2021 against trade receivables as well as amounts due under the spreading of lease incentives. These have been carried out for each of our 50 largest tenants and for others where we believe the risk is elevated, with the remaining balances considered according to their sector. Substantial impairment charges and write-offs totalling £14.2m were incurred against receivable balances in 2020. In 2021, these amounts have reduced considerably to £0.8m, this total amount including £2.4m of charges reversed from 2020. This pattern is due to an improved assessment of the risks as the financial health of tenants has improved as well as lower outstanding balances. For example, net trade receivables were back to normal year-end levels at £6.9m as at 31 December 2021, 75% lower than the £27.5m a year earlier.

Property income and earnings

Net property and other income increased to £187.5m for the year ended 31 December 2021 from £183.0m in 2020. However, there are several different themes underlying this overall increase, set out in note 5 and explained briefly below.

Gross property and other income fell to £240.2m for the year to 31 December 2021 from £268.6m in the prior year, the main reason for this being significantly lower sales of trading properties at Asta House. Most of the apartments were disposed of in 2020, hence the reduction in disposal proceeds from £32.3m in 2020 to £6.7m in 2021. The next apartments that we will undertake are those at our 19-35 Baker Street scheme where the main building contract will commence shortly. These are due to complete in 2025 so trading property disposal proceeds are expected to be very low for the next few years. In addition, gross rental income fell back a little in 2021 to £194.2m from £202.9m in 2020. This was mainly the result of property disposals where the income yields were relatively higher and acquisitions where they were lower. Gross rents have also been impacted by the 'softer' letting and lease extension transactions undertaken through 2020 and early 2021 when the pandemic was affecting occupier sentiment. In particular, we undertook a number of transactions to extend leases at passing rental levels while offering incentives that took the net effective rents a little lower than previously. Combined with a small increase in the average vacancy rate, this also explains why EPRA like-for-like gross rental income has declined over the year. Surrender premiums and other property income increased to £5.6m in 2021 from £1.8m in 2020, helping offset some of the lower gross rents. Other factors were service charge income rising to £30.2m in 2021 against £28.1m in 2020 and other income of £3.5m, the same as in 2020. Together, these movements account for the reduction in gross property and other income referred to above.

However, as in 2020, it is net property income that shows the full impact of the Covid-19 pandemic on our business. As noted above, with much stronger rent collection and occupation levels among most of our occupiers, impairment charges and bad debts fell to £0.8m in 2021, a significant improvement from the £10.1m booked in 2020. Irrecoverable service charges also fell from £6.9m in 2020 to £3.4m in 2021 as we did not repeat the £4.1m service charge 'holiday' that we allowed tenants in 2020. Other property costs were broadly unchanged at £11.8m against £11.6m in 2020. As a result, net rental income increased to £178.2m in 2021, a 2.2% increase over the year.

Lower profits from the Asta House apartment 'trading' sales of £0.7m in 2021 against £5.2m in 2020 were largely offset by higher surrender premiums recognised. As a result, net property and other income also saw a rise of 2.5% to £187.5m from £183.0m in 2020.

Administrative expenses were 1.9% lower than in 2020 at £37.1m, with increased headcount and staff salaries/bonus offset by lower Directors' remuneration. Cost pressure is being seen across the business and professional salaries are rising at a rate above general inflation. This is impacting our own staff cost but also those of the many professional advisers, consultants and contractors that work with us. As before, we do not capitalise any of our overhead.

Lower impairment and administrative expenses have seen our EPRA cost ratio move back down to a more normal level compared to the 'spike' in 2020. Including direct vacancy costs, it fell to 24.3% from 30.5% in 2020.

See Appendix 6 for cost ratios table

The investment portfolio revaluation surplus after accounting adjustments for the straight-lining of incentives, deferred legal/letting fees and the grossing up of headlease rentals was £130.8m for the year compared with a deficit of £196.1m in 2020. The profit on disposal, relating mainly to Angel Square which completed in August 2021, was £10.4m (2020: £1.7m).

Net finance costs were £28.1m in 2021 after capitalised interest of £12.0m, a decrease of £2.0m over the net charge of £30.1m in 2020. With slightly higher interest rates across the swap curve, the fair value of forward-start swaps moved in our favour by £4.8m, or £2.9m after netting off derivative termination costs.

When the new joint venture transaction with Lazari Investments in relation to the Baker Street properties was announced, we anticipated a revaluation deficit for the first accounting period. The Group's share of that was £10.2m and, after profit from operations of £0.3m, the net result for the period attributable to the Group was a loss of £9.9m. After allowing for acquisition costs of £4.0m, the total IFRS loss attributable to our share of the joint venture was £13.9m.

The Group's resulting IFRS profit before tax for the year was £252.5m after the loss before tax of £83.0m in 2020 and IFRS earnings per share were 224.99p against a loss of 69.34p in the prior year.

A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 25 and is summarised below.

See Appendix 6 for charts showing gross rental income and EPRA earnings

EPRA like-for-like rental income

EPRA like-for-like gross rental income was down by 3.9% over the year, due mainly to our decision to extend leases through the pandemic in 2020 and early 2021 with incentives higher than usual and slightly increased average vacancy levels. However, EPRA like-for-like net rental income was up by 2.7% over the year, benefitting from the lower impairment charges. Likewise, EPRA net property income, which includes surrender premiums, was up by 5.9% on a like-for-like basis.

See Appendix 6 for the EPRA like-for-like rental income table

Internal controls, assurance and the regulatory environment

We have recently seen a widespread increase in stakeholder focus on assurance and internal controls, linked partly to the BEIS review. Internal audits over the past two years have already had a beneficial impact on our control environment and, while no financial loss or reputational damage has been noted from this work, we recognise that the evidencing and documentation of robust controls are of increasing interest to our stakeholders and to regulators more widely.

We provided feedback in relation to the BEIS review and await the final conclusions and recommendations of their report with interest. In parallel, we have also been working on a draft audit and assurance policy which tackles our assurance approach for those limited parts of the business which are not yet subject to external assurance. Our principal third party checks include the annual statutory audit, internal audit procedures carried out throughout the year, service charge audits, a twice-yearly external valuation plus the assurance work carried out on our ESG data and procedures, health and safety reports and green finance. We recognise the importance of high-quality reporting that stands up to scrutiny, both from within the business through robust internal control mechanisms and also from third-party verification. This work is ongoing and is expected to escalate.

Taxation

The corporation tax charge for the year ended 31 December 2021 was £0.5m. Most of our portfolio is within the REIT regime but this charge relates to the Portman Estate non-controlling interest held outside the REIT up until it was acquired by us at the end of Q3 as well as income from property trading operations.

The movement in deferred tax for the year was a credit of £0.8m (2020: £0.7m credit).

A £1.8m credit was taken through the income statement mainly due to the reversal of the deferred tax liability once the Portman Estate's 45% interest in the jointly-owned company was acquired, bringing the asset fully within the REIT regime. In addition, £0.7m was credited through equity in relation to future tax deductions for equity-settled share-based payments, £0.4m was charged in respect of future defined benefit pension liabilities, and £1.3m was charged in relation to the owner-occupied property at Savile Row.

As well as other taxation paid during the year, in accordance with our status as a REIT, £8.6m of tax was paid to HMRC relating to tax withheld from shareholders on property income distributions (PIDs).

Derwent London's principles of good governance extend to a responsible approach to tax. Our statement of tax principles is available on our website www.derwentlondon.com/investors/governance/tax-principles and is approved by the Board in line with the Group's long-term values, culture and strategy.

Borrowings, net debt and cash flow

In last year's report, I noted that our low leverage meant that we would be comfortable adding further debt to our capital structure if the right acquisition opportunities were identified. In 2021, those opportunities crystallised in the form of acquisitions totalling £251.8m plus £53.4m arising on the acquisition of The Portman Estate's 45% interest in PIBS. Because the latter was already consolidated within the Group accounts and did not result in a change of control, it is required by IAS 7 to be shown in 'financing' activities rather than 'investing' activities. In addition, we spent £172.1m on capital expenditure including capitalised interest and incurred a further £1.6m on trading stock additions. The latter arises when we invest in properties where the intention upon completion is to sell rather than hold. Altogether, this meant that £478.9m was spent on property acquisitions and development expenditure, compared with £219.6m in 2020.

This cash outflow was offset by £297.3m of property disposal proceeds. As a result, Group borrowings increased by £216.2m to £1.25bn at 31 December 2021. This is the highest level the Group has seen but it remains relatively modest, equivalent to a loan-to-value (LTV) ratio of 20.8% against 18.4% a year earlier. Moreover, the level of headroom under debt facilities has increased after the financing activities noted below; as at 31 December 2021, available cash and undrawn facilities totalled £608m compared with £476m at 31 December 2020.

Following correspondence during Q4 2021 with the Corporate Reporting Review Team of the Financial Reporting Council, we have agreed to reclassify the cash flows relating to the investment in, and disposal of, trading properties within the Group Cash Flow Statement. Accordingly we have re-presented the Statement for the year ended 31 December 2020 to reclassify £31.7m of cash receipts and £1.2m of expenditure on trading properties from 'investing activities' to 'operating activities'. This has the effect of increasing the net cash inflow from operations in 2020 from £85.4m to £115.9m with a corresponding increase in the net cash outflow in investing activities from £62.0m to £92.5m. There is no net impact upon the cash flow statement overall and there is no impact on any balance sheet or income statement figures.

As reported last year, net cash from operations was adversely impacted in 2020 from the immediate effects of the pandemic. Our response at the time was to agree cash deferrals and other forms of tenant support that reduced cash rental receipts in 2020. Almost all of that deferred rent has subsequently been collected in 2021 such that the rents received in 2021 were £25.1m higher than 2020 at £187.0m. Net cash from operating activities further increased in 2021 to £125.7m from the restated £115.9m in 2020. Note that the cash flow from operations may be affected in the next few years by the build-up of trading stock at our 19-35 Baker Street development with both residential and some retail components of the scheme earmarked for onward sale.

The lower levels of impairment in 2021 have helped interest cover recover to 464% for the year compared to 446% in 2020 and 462% in the pre-Covid 2019. Our debt covenant remains at 145%.

See Appendix 6 for tables of debt facilities and reconciliation to borrowings and net debt and impact of joint ventures

Debt and financing

The Group had another year of active and successful refinancing in 2021. Both of the unsecured revolving credit facilities (RCFs) totalling £550m were extended for a year to fresh five year terms, evidence of the continuing excellent relationships we have with our four longstanding and valued lending banks. They have provided further support and advice through the year and remain key stakeholders in our business.

We documented the second and final one-year extension to the £450m RCF provided by HSBC, NatWest and Barclays, taking the maturity out to October 2026. This facility incorporates a £300m 'green' tranche and details of the qualifying projects, expenditure incurred and amounts drawn are shown below. As before, these disclosures have been subject to a 'reasonable' level of assurance by Deloitte.

We also documented our first one-year extension for the £100m RCF provided by Wells Fargo taking its term out to November 2026.

In Q4, both the RCFs and their associated interest rate swaps were transitioned from a LIBOR to a SONIA basis. These two forward-start swaps totalling £115m have commencement dates in January 2022 and £1.9m was paid in 2021 to defer their effective starting dates. Rates have moved in our favour during the year such that the mark-to-market fair value on these swaps improved by £4.8m.

In advance of the unwinding of the 55%/45% joint investment with the Portman Estate, the £28m secured loan provided by HSBC was repaid and cancelled. As noted earlier, the main Baker Street island site under development is now wholly-owned and subject to a new headlease. Development expenditure is being funded from existing Group revolving debt facilities, including the green tranche of our £450m RCF.

The main financing activity in 2021 was a debut green bond. This was very well received and raised just under £350m at 1.875% for 10 years to November 2031. The bonds were rated ‘A’ by Fitch and will be utilised in accordance with our Green Finance Framework, updated as required to deal with the green bonds as well as the existing green RCF tranche.

As a result of this financing activity, the Group’s weighted average interest rate fell by 20bp over the year to 3.14% on a cash basis and 3.27% on an IFRS basis which adjusts for the convertible bonds. In addition, the weighted average maturity of our borrowings increased to 7.2 years at 31 December 2021 compared to 6.8 years at 31 December 2020.

See Appendix 6 for tables of debt facilities and reconciliation to borrowings and net debt and debt: key stats, graph showing maturity profile of debt facilities

Reporting under the Green Finance Framework

Derwent London's Green Finance Framework (the Framework) has been updated again this year as a result of the green bond issuance in November 2021. The Framework has been prepared in line with the LMA Green Loan Principles and ICMA Green Bond Principles guidance document, has been externally reviewed and a second party opinion has been obtained. The latest Framework is available on our website at www.derwentlondon.com.

In accordance with the reporting requirements set out in the Framework, we are disclosing the Eligible Green Projects (EGPs) that have benefited from the green funding element of our £450m RCF and £350m green bonds 2031 (together the Green Financing Transactions (GFTs)) and the allocation of drawn funds to each project.

The projects benefiting from the GFTs are as follows:

Green project	**80 Charlotte Street W1**	**Soho Place W1**	**The Featherstone Building EC1**	**19-35 Baker Street W1**
Expected completion date	Completed in 2020	2022	2022	2025
Category for eligibility	Green building, criterion 1 of section 3.1 of the Framework (excludes Asta House and Charlotte Apartments)	Green building, criterion 1 of section 3.1 of the Framework (excludes Site B - Theatre)	Green building, criterion 1 of section 3.1 of the Framework	Green building, criterion 1 of section 3.1 of the Framework (excludes retail and refurbished residential)
Impact reporting indicator	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)
Green credentials	**Achieved:** BREEAM – Excellent EPC – B **Expected:** LEED – Gold, on target	**Site A Achieved:** BREEAM – Outstanding (design stage) **Expected:** BREEAM – Outstanding (post construction), on target LEED – Gold, on target EPC – B, on target **Site B - Offices Achieved:** BREEAM – Excellent (design stage) **Expected:** BREEAM – Excellent (post construction), on target EPC – B, on target	**Achieved:** BREEAM – Outstanding (design stage) **Expected:** BREEAM – Outstanding (post construction), on target LEED – Platinum, on target EPC – A, on target	**Offices Expected:** BREEAM – Excellent (design stage), on target LEED – Gold, on target EPC – A, on target **Private residential Expected:** Home Quality Mark – 4 Stars (design stage), on target

The 19-35 Baker Street project includes part new development and part refurbishment. The project will be assessed under the BREEAM, LEED and Home Quality Mark standards where applicable. Sections of this project do not qualify as eligible expenditure under the Framework, relating mainly to the retail and refurbished residential elements, and these have been excluded from the qualifying green expenditure.

Qualifying 'green' expenditure

The qualifying expenditure as at 31 December 2021 for each project is set out in the table below. This includes an element of 'look back' capital expenditure on live projects which had already been incurred as at the original refinancing date in October 2019. Soho Place and The Featherstone Building both commenced on site in 2019 and are due to reach practical completion in H1 2022.

The 19-35 Baker Street scheme commenced on site in October 2021. Costs incurred on the eligible sections of this development prior to October 2021 have been included in the 'look-back' spend for this project as they occurred prior to the project being formally elected.

Cumulative spend on each EGP as at the reporting date

		Subsequent spend		
EGP	Look back spend £m	Q4 19 – FY 2020 £m	2021 spend £m	Cumulative spend £m
80 Charlotte Street W1	185.6	33.8	17.8	237.2
Soho Place W1	66.3	74.9	62.7	203.9
The Featherstone Building EC1	29.1	30.0	30.3	89.4
19-35 Baker Street W1	26.5	-	5.8	32.3
	307.5	**138.7**	**116.6**	**562.8**

The cumulative qualifying expenditure on EGPs was £562.8m, with £116.6m of this being incurred in 2021 (excluding expenditure incurred on 19-35 Baker Street prior to October).

The net proceeds of the Bonds were initially used to repay amounts drawn under the Group's revolving credit facilities, including the £300m green tranche, thereby refinancing the EGPs in line with our Green Finance Framework.

The drawn borrowings from GFTs as at 31 December 2021 were £360m, which included £10m from the green tranche of the RCF and the £350m Green Bonds. Therefore, there was £290m of headroom within the £300m green tranche of the Group's £450m revolving credit facility as at 31 December 2021, of which £203m is available green headroom.

A requirement under the Framework and the facility agreement is for there to be an excess of qualifying spend on EGPs over the amount of drawn borrowings from all GFTs which, as shown above, has been met.

More information can be found in the Responsibility Report 2021.

See Appendix 6 for graph showing green borrowings and qualifying expenditure

Dividend

We continue to operate a progressive and sustainable dividend policy. After considering our pension funding obligations and other stakeholder requirements, the board is recommending a 1.05p per share or 2.0% increase in the final dividend to 53.5p. This will be paid in June 2022 with 35.5p as a PID and the balance of 18.0p as a conventional dividend. We will not be offering a scrip dividend alternative.

This takes the total dividend for 2021 to 76.5p, 2.8% higher than 2020. Dividends declared in relation to 2021 earnings were 1.42 times covered by EPRA earnings and 2.94 times covered by IFRS earnings.

PRINCIPAL RISKS AND UNCERTAINTIES

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and have assessed how these risks could best be mitigated through a combination of internal controls, risk management and the purchase of insurance cover. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in February 2022. The Board has confirmed that its risk appetite and key risk indicators remain appropriate.

During the year under review, Derwent London responded to the Covid-19 pandemic through proactive risk identification and mitigation, and early and continual engagement with our stakeholders. Our strong financial position and stakeholder-focused approach has helped us to weather the uncertainty.

In the second half of 2021, as the Government completed its roadmap to ease lockdown restrictions, London's business confidence and the wider economy started to rebound. Individuals and businesses are starting to adapt to 'living with Covid-19' with assistance from the vaccination and booster programmes.

Arising from the upturn in the economy, the new challenges facing the Group and the wider economy are, material and labour shortages and inflation. Overall, our risk profile remains elevated but is expected to slowly stabilise to pre-Covid levels during 2022.

Demand for office buildings remains polarised. Well-designed, energy efficient, amenity rich, modern buildings with adaptable floor plans and good floor-to-ceiling heights are proving more desirable and easier to lease than older, less attractive buildings which may require refurbishment. Without additional capital expenditure to improve energy efficiency, our ability to lease certain properties in our portfolio could be impacted.

The principal risks and uncertainties facing the Group in 2022 are set out on the following pages with the potential impact and the mitigating actions and controls in place. The Group's approach to the management and mitigation of risk is included in the 2021 Report & Accounts.

Strategic risks

The Group's business model and/or strategy does not create the anticipated shareholder value or fails to meet investors' and other stakeholders' expectations.

Risk, effect and progression	Controls and mitigation
1. Failure to implement the Group's strategy	
The Group's success depends on implementing its strategy and responding appropriately to internal or external factors including responding to changing work practices, occupational demand and London's global appeal. While it is not yet possible to fully evaluate the impact that Brexit will have on the Group's operations, the main risk to the Group posed by Brexit is that economic growth in the UK may be negatively impacted which may in turn affect London's growth and demand for office space. In addition, the Group must respond and/or adapt appropriately to economic cycles as the London office market has generally been cyclical in recent decades, with strong growth followed by sharp economic downturns precipitated by rising interest rates coinciding with significant oversupply. Should the Group fail to respond and adapt to such cycles or execute the projects that underpin its strategy, this may have a negative impact on the Group's expected growth and financial performance.	• The Group's development pipeline has a degree of flexibility that enables plans for individual properties to be changed to reflect prevailing economic circumstances. • The Group seeks generally to maintain income from properties until development commences and has an ongoing strategy to extend income through lease renewals and regears. • The Group aims to de-risk the development programme through pre-lets, typically during the construction period. • The Group conducts an annual strategic review, prepares a budget and provides two-year rolling forecasts three times a year. • The Board considers the sensitivity of the Group KPIs to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If considered necessary, modifications are made. • The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a particular focus on interest cover. • The Group focuses on good value properties that are less susceptible to reductions in tenant

Although the Covid-19 pandemic has not stopped the Group implementing its strategy, the lockdown restrictions have marginally extended the project length for Soho Place and The Featherstone Building, and has caused significant disruption to the economy. Covid-19 has only amplified weaknesses within the retail market, and we are reviewing on an ongoing basis the retail elements in our buildings. Our occupiers perceive the restaurant, retail and leisure aspects within our portfolio as amenities; hence we feel it is important that they are retained within our building offerings. The impact of a potential recession on our strategy, and other longer-term consequences of the Covid-19 pandemic, is being monitored by the Executive Committee and the Board. In respect to Brexit, the Group continued to monitor international trade negotiations. During 2021, labour shortages occurred due to the relocation of European labour back to the EU which had an impact on supply chains and the construction industry.

demand. The Group's average 'topped-up' office rent is only £59.69 per sq ft.

- International trade negotiations are being monitored and potential outcomes discussed with external advisers.
- The Group's diverse and high-quality tenant base provides resilience against tenant default.
- The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations. We do not have any properties in the City or Docklands.

Financial risks

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks. The main financial risk is that the Group becomes unable to meet its financial obligations, which is not currently a principal risk. Financial risks can arise from movements in the financial markets in which we operate and inefficient management of capital resources.

Risk, effect and progression	Controls and mitigation
2. Risk of tenants defaulting or tenant failure	
The majority of the Group's revenues are comprised of rent received from its tenants and any deterioration in their businesses and/or profitability could in turn adversely affect the Group's rental income or increase the Group's bad debts and/or number of lease terminations. In the event that some of our tenants went into default, we could incur impairments and write-offs of IFRS 16 lease incentive receivable balances which arise from the accounting requirement to spread any rent-free incentives given to a tenant over the respective lease term. Due to the economic impact of Covid-19, and its potential long-term implications, occupiers could be facing increased financial difficulty. Restaurants and hospitality tenants account for approximately 6% of the Group's portfolio income. Despite re-opening restaurants, retail and leisure properties, footfall is lower than pre-Covid-19 levels, disproportionately impacting on the revenues and operations of such tenants.	• Detailed reviews of all prospective tenants are performed. • A "tenants on watch" register is maintained and regularly reviewed by the Executive Committee and the Board. • Rent deposits are held where considered appropriate; the balance at 31 December 2021 was £17.6m. • Active rent collection with regular reports to the Executive Committee. • We maintain close and frequent contact with our tenants.

3. Income decline

Risk, effect and progression	Controls and mitigation
Changes in macroeconomic factors may adversely affect London's office market. The Group is exposed to external factors which are outside the Group's control, such as future demand for office space, the 'grey' market in office space (i.e. tenant controlled vacant space), weaknesses in retail and hospitality businesses, increase in homeworking and the depth of any future recession and subsequent rise in unemployment and/or interest rates. Such macroeconomic conditions may lead to a general property market contraction, a decline in rental values, decline in Group income and potentially property values. Any reduction in property income could also have an adverse impact on the value of the Group's properties and may hinder any future dividend payments. In light of Covid-19, we have been monitoring the economic outlook, vacancy rates, financial health of our tenants and the condition of the wider property market.	• The Credit Committee perform detailed reviews of all prospective tenants. • A "tenants on watch" register is maintained and regularly reviewed by the Executive Committee and the Board. • Ongoing dialogue and proactive internal management is maintained with tenants to understand their concerns and requirements. • The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business continuity.

Operational risks

The Group suffers either a financial loss or adverse consequences due to processes being inadequate or not operating correctly, human factors or other external events.

Risk, effect and progression	Controls and mitigation
4. Risks arising from our development activities	
A. Reduced development returns	
Returns from the Group's developments may be adversely impacted due to: • delay on-site; • increased construction costs; • labour shortages; • materials and material shortages; and • adverse letting conditions. Despite strict Covid-19 protocols on-site, there is a risk of labour and resource shortages both on-site and in the supply chain, which could lead to productivity disruption and project delay. Any significant delay in completing the development projects may result in financial penalties or a reduction in the Group's targeted financial return. During 2021, our Development team liaised and agreed processes to mitigate against delays or cost increases with our principal contractors due to potential material and labour shortages.	• Detailed reviews are performed on construction projects to ensure that programme forecasts predicted by our contractors are aligned with our views. • The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated. • Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified, implemented and lessons learned. • Procedures carried out before starting work on-site, such as site investigations, historical research of the property and surveys conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on-site. • Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances.

- The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible.

B. 'On-site' risk

Risk of project delays and/or cost overruns caused by unidentified issues. For example, if the Group fails to:

- adequately appraise investments prior to starting work on-site, including through taking into account contingencies and inflationary cost increases;
- use a procurement process that is properly designed (to minimise uncertainty around costs) and that includes the use of highly regarded quantity surveyors;
- benchmark development costs;
- conduct thorough site investigations to reduce the risk of unidentified issues such as asbestos;
- implement its pre-letting strategy; or
- conduct detailed reviews on construction projects to evaluate programme forecasts made by contractors, development projects may be significantly delayed and we could face a loss of rental income and penalties.

Due to the restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to minor delays. The Featherstone Building and Soho Place are aiming to achieve practical completion in H1 2022 and are still expected to be completed within their original budgets. Sites are now fully operational in accordance with Site Operating Procedures Version 9. Despite strict Covid-19 protocols on-site, there is a risk of labour and resource shortages both on-site and in the supply chain, which could lead to productivity disruption and project delay.

- Strict Covid-19 protocols at all of our on-site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council).
- Regular monitoring of our contractors' cash flows.
- Frequent meetings with key contractors and subcontractors to review their work programme and maintain strong relationships.
- Off-site inspection of key components to ensure they have been completed to the requisite quality.
- Prior to construction beginning on-site, professional project managers conduct site investigations including the building's history and various surveys to identify any potential issues.
- Monthly reviews of Brexit related supply chain issues for each of our major projects, including in respect to potential labour shortages.

C. Contractor/subcontractor default

Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major subcontractor defaulting during the project. There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors.

There is an ongoing risk of insolvencies in the construction industry. Due to this risk, we have been actively monitoring the financial health of our main contractors and subcontractors.

- Regular monitoring of our contractors, including their project cash flows, is carried out.
- Key construction packages are acquired early in the project's life to reduce the risks associated with later default.
- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- Our main contractors are responsible, and assume the immediate risk, for subcontractor default.
- Payments to contractors are in place to incentivise the achievement of project timescales, with damages agreed in the event of delay/cost overruns.
- Regular on-site supervision by a dedicated Project Manager who monitors contractor performance and identifies problems at an early

stage, thereby enabling remedial action to be taken.
- We use known contractors with whom we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

5. Risk of business interruption

A. Cyber-attack on our IT systems

The Group may be subject to a cyber-attack that results in it being unable to use its information systems and/or losing data. Such an attack could severely restrict the ability of the Group to operate, lead to an increase in costs and/or require a significant diversion of management time.

This risk has been heightened during the Covid-19 pandemic, as cyber-criminals seek to exploit the disruption caused by employees working from home. In response, we identified the key IT risks arising from homeworking and implemented additional controls.

- The Group's Business Continuity Plan is regularly reviewed and tested.
- Independent internal and external penetration/vulnerability tests are regularly conducted to assess the effectiveness of the Group's security.
- Multi-Factor Authentication exists for remote access to our systems.
- Incident response and remediation processes are in place, which are regularly reviewed and tested.
- The Group's data is regularly backed up and replicated off-site.
- Our IT systems are protected by anti-virus software, security anomaly detection and firewalls that are frequently updated.
- Frequent staff awareness and training programmes.
- Security measures are regularly reviewed by the DIT department.
- The Group has been awarded the 'Cyber Essentials' accreditation which demonstrates our commitment to cyber security.

B. Cyber-attack on our buildings

The Group is exposed to cyber-attacks on its properties which may result in data breaches or significant disruption to IT-enabled tenant services. A major cyber-attack against the Group or its properties could negatively impact the Group's business, reputation and operating results.

- Each building has incident management procedures which are regularly reviewed and tested.
- Physical segregation between the building's core IT infrastructure and tenants' corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.
- Inclusion of Building Managers in any cyber security awareness training and phishing simulations.

C. Significant business interruption (for example, pandemic, terrorism-related event or other business interruption)

Major incidents may significantly interrupt the Group's business, its occupiers and/or supply chain. Such incidents could be caused by a wide range of events such as a pandemic, terrorism-related events, natural catastrophes or fires. This could result in issues such as being unable to access or operate the Group's properties, tenant failures or reduced rental income, share price volatility or loss of key suppliers.

- The Group has comprehensive business continuity and incident management procedures both at Group level and for each of our managed buildings which are regularly reviewed and tested.
- Government health guidelines are maintained at all of our construction sites.
- Most of our employees are capable of working remotely and have the necessary IT resources.

The ramifications of the Covid-19 outbreak have been far-reaching across all sectors and the pandemic has created extreme economic volatility. The Group has suffered minimal disruption due to Covid-19 and has been capable of operating successfully remotely during lockdown restrictions. However, the lockdowns have caused a delay to our development activities and reduction in cash flow due to deferment or non-payment of rent.

- Fire protection and access/security procedures are in place at all of our managed properties.
- Comprehensive property damage and business interruption insurance which includes terrorism.
- At least annually, a fire risk assessment and health and safety inspection are performed for each property in our managed portfolio, in addition to annual Planned Preventive Maintenance surveys.
- Robust security at our buildings, including CCTV and access controls.

6. Reputational damage

The Group has invested significantly in developing a well-regarded and respected brand. The Group's reputation could be damaged, for example, through unauthorised or inaccurate media coverage, unethical practices or behaviours by the Group's executives, or failure to comply with relevant legislation. This could lead to a material adverse effect on the Group's operating performance and the overall financial position of the Group. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.

Feedback on how we have responded to the Covid-19 pandemic, particularly in respect to our occupiers, suppliers, employees and Community Fund, has generally been positive.

- Close involvement of senior management in day-to-day operations and established procedures for approving all external announcements.
- All new members of staff benefit from an induction programme and are issued with our Group staff handbook.
- The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, both of whom maintain regular contact with external media sources.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Social media channels are monitored.
- Ongoing engagement with local communities in areas where the Group operates.
- Staff training and awareness programmes.

7. Our resilience to climate change

If the Group fails to respond appropriately, and sufficiently, to climate change risks or fails to benefit from the potential opportunities. This could lead to damage to our reputation, loss of income and/or property values and loss of our licence to operate. In addition, there is a risk that the cost of construction materials and providing energy, water and other services to occupiers will rise as a consequence of climate change.

Overall, climate change risk continues to increase in prominence and importance. The UK Government continues to introduce more legislative aspects linked to climate risk e.g. from 2022 certain listed entities will have to disclose in line with the TCFD and the latest energy white paper is setting out higher standards for energy efficiency in commercial and residential properties.

- The Board and Executive Committee receive regular updates and presentations on ESG (environmental, social and governance) matters as well as progress against our pathway to becoming net zero carbon by 2030.
- The Sustainability Committee monitors our performance and management controls.
- Strong team led by an experienced Head of Sustainability.
- The Group monitors its ESG reporting against various industry benchmarks.
- Production of an annual Responsibility Report with key data and performance points which are externally assured.
- In 2017 we adopted science-based carbon targets which have been independently verified by the Science-Based Targets initiative (SBTi).

8. Non-compliance with regulation

A. Non-compliance with health and safety legislation

The Group’s cost base is increased, and management time is diverted through an incident or breach of health, safety and fire legislation leading to reputational damage and/or loss of our licence to operate. For example, a major health and safety incident could cause significant business interruption for the Group.

During 2021, the health and wellbeing of our employees, occupiers and other stakeholders has been a top priority. We have invested additional resources into health and safety. Our accident frequency rate (AFR) for development projects in 2021 was 1.26 (2020: 2.72) a reduction of 53.7%.

- All our properties have the relevant health, safety and fire management procedures in place which are reviewed annually.
- The Group has a qualified Health and Safety team whose performance is monitored and managed by the Health and Safety Committee.
- Health and safety statutory compliance within our managed portfolio is managed and monitored using RiskWise, a software compliance platform. This is supported by annual property health checks.
- The Managed Portfolio Health and Safety Manager with the support of internal and external stakeholders supports our Portfolio and Building Managers to ensure statutory compliance.
- The Construction Health and Safety Manager, with the support of internal and external stakeholders, ensures our Construction (Design and Management) Regulations (CDM) client duties are executed and monitored and reviews health, safety and welfare on each construction site on a monthly basis.
- The Board and Executive Committee receive frequent updates and presentations on key health and safety matters, including both physical and mental health.

B. Other regulatory non-compliance

Should the Group breach any of the legislation that forms the regulatory framework within which the Group operates, the Group’s cost base could increase and management time could be diverted. This could lead to damage to our reputation and/or loss of our licence to operate.

During 2020 and 2021, we have followed the UK Government’s regulations in respect of social distancing and safe working practices. In accordance with disclosure requirements, we ensured our stakeholders and the wider investment market were kept appraised of Derwent London’s response to Covid-19 and its impact on our business.

During 2021, the Competition and Markets Authority (the “CMA”) has been investigating uncompetitive behaviour in the construction industry, including price fixing, marketing sharing and bid rigging. Although the Group seeks assurances from prospective contractors on the status of any CMA investigations in which they are involved, the use of contractors which are found to be engaging in uncompetitive behaviour could lead to reputational damage for the Group.

- The Board and Risk Committee receive regular reports prepared by the Group’s legal advisers identifying upcoming legislative/regulatory changes. External advice is taken on any new legislation.
- Staff training and awareness programmes.
- Group policies and procedures dealing with all key legislation are available on the Group’s intranet.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Managing our properties to ensure they are compliant with the Minimum Energy Efficiency Standards (MEES) for Energy Performance Certificates (EPCs).

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

credit risk;
market risk; and
liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years. The Group's loan-to-value ratio has increased to 20.8% as at 31 December 2021 but remains modest.

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, accrued income arising from the spreading of lease incentives, cash at bank, trade and other payables, floating rate bank loans, fixed rate loans and private placement notes, secured and unsecured bonds and interest rate swaps.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to executive management for designing and operating processes that ensure the effective implementation of the objectives and policies.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and its ability to maximise returns. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from lease contracts in relation to its property portfolio. It is Group policy to assess the credit risk of new tenants before entering into such contracts. The Board has a Credit Committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings when available and, in some cases, forecast information and bank or trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained. The Committee also reviews existing tenant covenants from time to time.

The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's occupiers though the estimated risk is considered lower than in 2020. Impairment calculations have been carried out on trade receivables and accrued income arising as a result of the spreading of lease incentives using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. In addition, the Credit Committee has reviewed its register of tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA and the top 69 tenants by size with the remaining occupiers considered on a sector by sector basis.

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions.

For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk arises for the Group from its use of variable interest bearing instruments (interest rate risk).

The Group monitors its interest rate exposure on at least a quarterly basis. Sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.1m (2020: £0.8m) or a decrease of £0.1m (2020: £0.7m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2021, the proportion of fixed debt held by the Group was above this range at 99% (2020: 85%) following the green bond issue in November 2021 which has a fixed interest rate. It initially used to repay amounts drawn under the Group's revolving credit facilities, which have a floating interest rate. During both 2021 and 2020, the Group's borrowings at variable rate were denominated in sterling.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. When the Group raises long-term borrowings, it is generally at fixed rates.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient headroom in its loan facilities to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain committed facilities to meet the expected requirements. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further explained in the 'market risk' section above.

Executive management receives rolling three-year projections of cash flow and loan balances on a regular basis as part of the Group's forecasting processes. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group's loan facilities and other borrowings are spread across a range of banks and financial institutions so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

Capital disclosures

The Group's capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and non-controlling interest).

The Group's objectives when maintaining capital are:

to safeguard the entity's ability to continue as a going concern so that it can continue to provide above average long-term returns for shareholders; and to provide an above average annualised total return to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2021, the Group's strategy, which was unchanged from 2020, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the net interest cover ratio, are defined in the list of definitions at the end of this announcement and are derived in note 26.

The Group is also required to ensure that it has sufficient property assets which are not subject to fixed or floating charges or other encumbrances. Most of the Group's debt is unsecured and, accordingly, there was £4.8bn (2020: £4.3bn) of uncharged property as at 31 December 2021.

Directors' responsibilities
The Directors are responsible for preparing the Annual Report 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 Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under Company law, 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 Group and Company and of the profit or loss of the Group 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 UK-adopted international accounting standards 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 Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board
Paul M. Williams
Chief Executive

Damian M.A. Wisniewski
Chief Financial Officer

24 February 2022

GROUP INCOME STATEMENT

	Note	2021 £m	2020 £m
Gross property and other income	5	**240.2**	268.6
Net property and other income[1]	5	**187.5**	183.0
Administrative expenses		**(37.1)**	(37.8)
Revaluation surplus/(deficit)	11	**130.8**	(196.1)
Profit on disposal	6	**10.4**	1.7
Profit/(loss) from operations		**291.6**	(49.2)
Finance income	7	**-**	0.2
Finance costs	7	**(28.1)**	(30.3)
Loan arrangement costs written off	7	**-**	(0.1)
Movement in fair value of derivative financial instruments		**4.8**	(1.9)
Financial derivative termination costs	8	**(1.9)**	(1.7)
Share of results of joint ventures	9	**(13.9)**	-
Profit/(loss) before tax		**252.5**	(83.0)
Tax credit	10	**1.3**	1.6
Profit/(loss) for the year		**253.8**	(81.4)
Attributable to:			
- Equity shareholders		**252.3**	(77.6)
- Non-controlling interest		**1.5**	(3.8)
		253.8	(81.4)
Basic earnings/(loss) per share	25	**224.99p**	(69.34p)
Diluted earnings/(loss) per share	25	**224.44p**	(69.34p)

[1] Net property and other income in 2021 includes write-off/impairment of receivables of £0.8m (2020: £10.1m plus a service charge waiver of £4.1m). See note 3 for additional information.

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2021 £m**	2020 £m
Profit/(loss) for the year		**253.8**	(81.4)
Actuarial gains/(losses) on defined benefit pension scheme		**2.7**	(4.1)
Deferred tax (charge)/credit on pension	19	**(0.4)**	0.4
Revaluation surplus of owner-occupied property	11	**3.7**	0.4
Deferred tax charge on revaluation	19	**(1.3)**	(0.2)
Other comprehensive income/(expense) that will not be reclassified to profit or loss		**4.7**	(3.5)
Total comprehensive income/(expense) relating to the year		**258.5**	(84.9)
Attributable to:			
- Equity shareholders		**257.0**	(81.1)
- Non-controlling interest		**1.5**	(3.8)
		258.5	(84.9)

GROUP BALANCE SHEET

	Note	**2021 £m**	2020 £m
Non-current assets			
Investment property	11	**5,359.9**	5,029.1
Property, plant and equipment	12	**54.0**	50.2
Investments	13	**51.1**	0.9
Deferred tax	19	**0.3**	-
Pension scheme surplus		**1.8**	-
Other receivables	14	**159.3**	146.4
		5,626.4	5,226.6
Current assets			
Trading property	11	**32.2**	12.9
Trading stock	22	**0.4**	-
Trade and other receivables	15	**61.7**	76.2
Cash and cash equivalents	21	**68.5**	50.7
		162.8	139.8
Non-current assets held for sale	16	**102.8**	165.0
Total assets		**5,892.0**	5,531.4
Current liabilities			
Borrowings	18	**12.3**	-
Leasehold liabilities	18	**51.2**	-
Trade and other payables	17	**128.3**	106.7
Corporation tax liability		**0.5**	0.5
Derivative financial instruments	18	**0.4**	-
Provisions		**0.3**	0.6
		193.0	107.8
Non-current liabilities			
Borrowings	18	**1,237.1**	1,033.2
Derivative financial instruments	18	**0.4**	5.6
Leasehold liabilities	18	**19.4**	66.6
Provisions		**0.3**	0.4
Pension scheme deficit		**-**	2.2
Deferred tax	19	**-**	0.5
		1,257.2	1,108.5
Total liabilities		**1,450.2**	1,216.3
Total net assets		**4,441.8**	4,315.1
Equity			
Share capital		**5.6**	5.6
Share premium		**195.4**	193.7
Other reserves		**941.1**	939.4
Retained earnings		**3,299.7**	3,124.5
Equity shareholders' funds		**4,441.8**	4,263.2
Non-controlling interest	22	**-**	51.9
Total equity		**4,441.8**	4,315.1

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2021	5.6	193.7	939.4	3,124.5	4,263.2	51.9	4,315.1
Profit for the year	-	-	-	252.3	252.3	1.5	253.8
Other comprehensive income	-	-	2.4	2.3	4.7	-	4.7
Share-based payments	-	1.7	(0.7)	5.2	6.2	-	6.2
Dividends paid	-	-	-	(84.6)	(84.6)	-	(84.6)
Acquisition of non-controlling interest	-	-	-	-	-	(53.4)	(53.4)
At 31 December 2021	**5.6**	**195.4**	**941.1**	**3,299.7**	**4,441.8**	**-**	**4,441.8**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2020	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9
Loss for the year	-	-	-	(77.6)	(77.6)	(3.8)	(81.4)
Other comprehensive income/(expense)	-	-	0.2	(3.7)	(3.5)	-	(3.5)
Share-based payments	-	0.7	3.0	1.6	5.3	-	5.3
Dividends paid	-	-	-	(82.2)	(82.2)	-	(82.2)
At 31 December 2020	5.6	193.7	939.4	3,124.5	4,263.2	51.9	4,315.1

GROUP CASH FLOW STATEMENT

	Note	**2021** **£m**	2020 Restated £m
Operating activities			
Rents received		**187.0**	161.9
Surrender premiums and other property income		**5.7**	2.7
Property expenses		**(14.3)**	(19.1)
Cash paid to and on behalf of employees		**(26.9)**	(27.5)
Other administrative expenses		**(7.8)**	(8.0)
Interest received		**-**	0.2
Interest paid	7	**(21.9)**	(25.4)
Other finance costs	7	**(3.1)**	(2.9)
Other income		**4.1**	3.5
Disposal of trading property	1	**5.0**	31.7
Expenditure on trading properties	1	**(1.6)**	(1.2)
Tax paid in respect of operating activities		**(0.5)**	-
Net cash from operating activities	1	**125.7**	115.9
Investing activities			
Acquisition of properties		**(251.8)**	(43.8)
Capital expenditure on the property portfolio	7	**(172.1)**	(173.4)
Disposal of investment properties		**297.3**	125.6
Investment in joint ventures		**(64.1)**	-
Settlement of shareholder loan		**2.0**	-
Receipts from joint ventures		**-**	0.4
Purchase of property, plant and equipment		**(1.6)**	(0.4)
Disposal of property, plant and equipment		**0.2**	-
VAT received/(paid)		**7.5**	(0.9)
Net cash used in investing activities		**(182.6)**	(92.5)
Financing activities			
Net proceeds of green bond issue		**346.0**	-
Repayment of revolving bank loan		**-**	(6.5)
Drawdown of new revolving bank loan		**-**	24.2
Net movement in revolving bank loans		**(117.8)**	38.0
Proceeds from other loan		**12.3**	-
Repayment of secured bank loan		**(28.0)**	-
Financial derivative termination costs	8	**(1.9)**	(1.7)
Acquisition of non-controlling interest	22	**(53.4)**	-
Net proceeds of share issues		**1.8**	0.6
Dividends paid	20	**(84.3)**	(81.8)
Timing differences on indirect taxes			
Net cash from/(used in) financing activities		**74.7**	(27.2)
Increase/(decrease) in cash and cash equivalents in the year		**17.8**	(3.8)
Cash and cash equivalents at the beginning of the year		**50.7**	54.5
Cash and cash equivalents at the end of the year	21	**68.5**	50.7

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework however, there is no impact on recognition, measurement or disclosure.

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards, (the “applicable framework”), and have been prepared in accordance with the provisions of the Companies Act 2006 (the “applicable legal requirements”). The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, the revaluation of property, plant and equipment, assets held for sale, pension scheme, and financial assets and liabilities held at fair value.

Going concern
The Board continues to adopt the going concern basis in preparing these consolidated financial statements. In considering this requirement, the Directors have taken into account the following:

- The Group’s latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities.
- The headroom under the Group’s financial covenants.
- The risks included on the Group’s risk register that could impact on the Group’s liquidity and solvency over the next 12 months.
- The risks on the Group’s risk register that could be a threat to the Group’s business model and capital adequacy.

The Directors have considered the relatively long-term and predictable nature of the income receivable under the tenant leases, the Group’s year-end loan-to-value ratio for 2021 of 21.0%, the interest cover ratio of 463%, the £608m total of undrawn facilities and cash and the fact that the average maturity of borrowings was 7.2 years at 31 December 2021. The impact of the Covid-19 pandemic on the business and its occupiers has been considered. The impact in 2021 was considerably less than in 2020 as evidenced by lower impairment charges and stronger rent collection rates. Rent collection has improved quarter by quarter and, for our office occupiers, is now close to that seen pre-pandemic. Office occupation rates are also gradually recovering. The likely impact of climate change has been incorporated in our forecasts and an exercise has been carried out to better understand the cost of upgrading those properties in our portfolio with lower EPC ratings. There is a risk that, without capital investment, some of the buildings with lower EPC ratings could in future suffer from higher vacancy rates and income/valuation decline. Based on our forecasts, rental income would need to decline by 69% and property values would need to fall by 63% before breaching our financial covenants. When subjected to a 15% fall in both rental income and property values our interest cover remained above 300% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review. In addition, the Group’s risks and risk management processes can be found within the risk management and internal controls.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these consolidated financial statements and, therefore, the Board continues to adopt the going concern basis in their preparation.

Presentation of cash flow statement
Following correspondence in late 2021 and early 2022 with the Corporate Reporting Review Team of the Financial Reporting Council (“FRC”), we have agreed to classify the cash flows relating to the additions to, and disposal of, trading properties within the Group Cash Flow Statement within ‘net operating activities’ rather than ‘investing activities’. We have re-presented the statement for the year ended 31 December 2020 to reclassify £31.7m of cash receipts and £1.2m of expenditure on trading properties from ‘investing activities’ to ‘operating activities’. This has the effect of increasing the net cash from operations in 2020 from £85.4m to £115.9m with a corresponding increase in the net cash used in investing activities from £62.0m to £92.5m. This presentation has also been adopted for the year ended 31 December 2021 and will be applied consistently in future. There is no net impact upon the cash flow statement overall and there is no impact on any balance sheet or income statement figures. The review conducted by the FRC was based solely on the Group’s published 2020 annual report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 2020, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year
The following standards, amendments and interpretations were effective for the first time for the Group's current accounting period and had no material impact on the financial statements.

IFRS 16 (amended) – Covid-19-related Rent Concessions;
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amended) – Interest Rate Benchmark Reform – Phase 2.

Standards 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 period and have not been adopted early. Based on the Group'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 Group.

IFRS 17 – Insurance Contracts;
IAS 1 (amended) – Classification of liabilities as current or non-current;
IAS 1 and IFRS Practice Statement 2 (amended) – Disclosure of Accounting Policy;
IAS 8 (amended) – Definition of Accounting Estimate;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture;
IFRS 3 (amended) – Business Combinations;
IAS 16 (amended) – Property, plant and equipment;
IAS 37 (amended) – Provision, contingent liabilities and contingent assets;
IFRS 1, IFRS 9, IAS 41 and IFRS 16 annual improvements;
IAS 12 (amended) – deferred tax related to assets and liabilities arising from a single transaction;
Annual improvements to IFRS Standards 2018-2020.

3. Significant judgments, key assumptions and estimates

The preparation of financial statements in accordance with the applicable framework requires the use of certain significant accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. 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. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on these condensed financial statements.

Key sources of estimation uncertainty

Property portfolio valuation
The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties and take into account the impact of climate change and related Environmental, Social and Governance considerations. More information is provided in note 11.

Impairment testing of trade receivables and other financial assets
Trade receivables and accrued rental income recognised in advance of receipt are subject to impairment testing. This accrued rental income arises due to the spreading of rent free and reduced rent periods, capital contributions and contracted rent uplifts in accordance with IFRS 16 Leases.

Impairment calculations have been carried out using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. The impact of the Covid-19 pandemic on the Group's business and its occupiers has been considered and in 2021 the severity of the impact has reduced and the charge to the income statement was lower than in 2020. Rent collection rates have improved and are close to pre-Covid levels. However, there remains an elevated risk of certain tenants defaulting or failing, particularly in respect to the retail and hospitality sectors. This has resulted in an additional provision totalling £0.2m for 2021. After adding receivable balances written off of £0.6m, the total charge for provisions and write-offs in 2021 was £0.8m, lower than the £10.1m recognised in 2020. In arriving at the estimates, the Group considered the tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA, the top 69 tenants by size and has also considered the remaining balances classified by sector.

The impairment provisions are included within 'Other receivables (non-current)' (see note 14) and 'Trade and other receivables' (see note 15) as shown below:

	Other receivables (non-current) £m	Trade and other receivables (current) £m	**Total £m**
Lease incentive receivables before impairment	151.9	22.0	**173.9**
Impairment of lease incentive receivables	(4.7)	(0.7)	**(5.4)**
Write-off	(0.2)	(0.1)	**(0.3)**
Net lease incentive included within accrued income	147.0	21.2	**168.2**
Trade receivables before impairment	-	11.3	**11.3**
Impairment of trade receivables	-	(3.8)	**(3.8)**
Service charge provision	-	(0.3)	**(0.3)**
Write-off	-	(0.3)	**(0.3)**
Net trade receivables	-	6.9	**6.9**
Impairment	(4.7)	(4.5)	**(9.2)**
Service charge provision	-	(0.3)	**(0.3)**
Write-off/impairment of receivables	(4.7)	(4.8)	**(9.5)**

The assessment considered the risk of tenant failures or defaults using information on tenants' payment history, deposits held, the latest known financial position together with forecast information where available, ongoing dialogue with tenants as well as other information such as the sector in which they operate. Following this, tenants were classified as either low, medium or high risk and the table below provides further information. The cumulative impairment against lease incentive receivable balances was £5.4m and against trade receivable balances was £4.1m.

	Lease incentive receivables (non-current) £m	Lease incentive receivables (current) £m	Trade receivables (current) £m
Balance before impairment			
Low risk	138.0	17.4	3.7
Medium risk	6.3	3.2	2.3
High risk	7.4	1.3	5.0
	151.7	21.9	11.0
Impairment			
Low risk	(0.2)	-	-
Medium risk	(0.4)	(0.1)	(0.1)
High risk	(4.1)	(0.6)	(4.0)
	(4.7)	(0.7)	(4.1)
	147.0	21.2	6.9

Borrowings and derivatives
The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets. More information is provided in note 18.

Significant judgements

Compliance with the real estate investment trust (REIT) taxation regime
As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.

The Group met all the criteria in 2021 with a substantial margin in each case, thereby ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

The Group has maintained its low risk rating with HMRC following continued regular dialogue and a focus on transparency and full disclosure.

4. Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision makers (which in the Group's case are the five executive Directors assisted by the other seven members of the Executive Committee) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include IFRS figures but also report non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 25. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate reportable segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 97% office buildings[1] by value at 31 December 2021 (2020: 98%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment. The remaining 3% (2020: 2%) represented a mixture of retail, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the strategic report. The majority of the Group's properties are located in London (West End central, West End borders/other and City borders), with the remainder in Scotland (Provincial).

[1] Some office buildings have an ancillary element such as retail or residential.

Gross property income

	2021			2020		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	108.4	0.3	**108.7**	104.3	0.1	104.4
West End borders/other	18.5	-	**18.5**	20.4	-	20.4
City borders	67.6	0.5	**68.1**	74.9	0.5	75.4
Provincial	-	4.5	**4.5**	-	4.5	4.5
	194.5	5.3	**199.8**	199.6	5.1	204.7

A reconciliation of gross property income to gross property and other income is given in note 5.

Excluded from the table above is £0.4m of the Group's share of gross property income in relation to joint ventures located within West End central. See note 9.

Property portfolio

	2021			2020		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	3,313.6	82.2	**3,395.8**	2,936.7	45.9	2,982.6
West End borders/other	408.1	-	**408.1**	447.9	-	447.9
City borders	1,649.7	8.4	**1,658.1**	1,738.2	8.0	1,746.2
Provincial	-	82.2	**82.2**	-	75.9	75.9
	5,371.4	172.8	**5,544.2**	5,122.8	129.8	5,252.6
Fair value						
West End central	3,348.9	84.2	**3,433.1**	2,966.2	47.4	3,013.6
West End borders/other	431.4	-	**431.4**	475.4	-	475.4
City borders	1,690.4	8.4	**1,698.8**	1,781.7	8.1	1,789.8
Provincial	-	83.0	**83.0**	-	76.7	76.7
	5,470.7	175.6	**5,646.3**	5,223.3	132.2	5,355.5

A reconciliation between the fair value and carrying value of the portfolio is set out in note 11.

Excluded from the table above is property in relation to the Group's share of joint ventures located within West End central, with a carrying value of £50.2m and a fair value of £50.0m. See notes 11 and 13.

5. Property and other income

	2021 £m	2020 £m
Gross rental income	**194.2**	202.9
Surrender premiums received	**3.6**	0.9
Other property income	**2.0**	0.9
Gross property income	**199.8**	204.7
Trading property sales proceeds[1]	**6.7**	32.3
Service charge income[1]	**30.2**	28.1
Other income[1]	**3.5**	3.5
Gross property and other income	**240.2**	268.6
Gross rental income	**194.2**	202.9
Write-off/impairment of receivables	**(0.8)**	(10.1)
Service charge waiver	**-**	(4.1)
Service charge income[1]	**30.2**	28.1
Service charge expenses	**(33.6)**	(30.9)
	(3.4)	(2.8)
Property costs	**(11.8)**	(11.6)
Net rental income	**178.2**	174.3
Trading property sales proceeds[1]	**6.7**	32.3
Trading property cost of sales	**(6.0)**	(27.1)
Profit on trading property disposals	**0.7**	5.2
Other property income	**2.0**	0.9
Other income[1]	**3.5**	3.5
Surrender premiums received	**3.6**	0.9
Dilapidation receipts	**0.9**	-
Write-down of trading property	**(1.4)**	(1.8)
Net property and other income	**187.5**	183.0

[1] In line with IFRS 15 Revenue from Contracts with Customers, the Group recognised a total of £40.4m (2020: £63.9m) of other income, trading property sales proceeds and service charge income, which relates to expenditure that is directly recoverable from tenants, within gross property and other income.

Gross rental income includes £20.2m (2020: £24.0m) relating to rents recognised in advance of cash receipts.

Other income relates to fees and commissions earned from tenants in relation to the management of the Group's properties and was recognised in the Group income statement in accordance with the delivery of services.

The impairment review has been carried out using the expected credit loss model within IFRS 9 Financial Instruments (see notes 3 and 15 for additional information). Included in this provision is a charge of £0.6m against trade receivables relating to rental income for the 25 December 2021 quarter day. Most of this income is deferred and has not yet been recognised in the income statement. A 10% increase/decrease to the absolute probability rates of tenant default in the year would result in a £1.8m increase and £1.9m decrease respectively, in the Group's profit for the period. This sensitivity has been performed on the medium to high risk tenants as the significant estimation uncertainty is wholly related to these.

In the year to 31 December 2020, a 25% waiver of two quarters' service charge was given to support occupiers across the whole portfolio in response to Covid-19 at a cost of £4.1m to the Group.

6. Profit on disposal

	2021 £m	2020 £m
Investment property		
Gross disposal proceeds	**402.4**	120.9
Costs of disposal	**(3.7)**	(0.6)
Net disposal proceeds	**398.7**	120.3
Carrying value	**(387.5)**	(118.6)
Adjustment for lease costs and rents recognised in advance	**(0.7)**	-
Profit on disposal of investment property	**10.5**	1.7
Artwork		
Carrying value	**(0.1)**	-
Loss on disposal of artwork	**(0.1)**	-
Profit on disposal	**10.4**	1.7

Included within gross disposal proceeds for 2021 is £167.6m relating to the disposal of the Group's freehold interest in Johnson Building EC1 in January 2021, which was classified as a non-current asset held for sale at 31 December 2020 and £86.5m relating to the disposal of the Group's freehold interest in Angel Square EC1 in August 2021.

Also included within gross disposal proceeds for 2021 is £100.7m relating to the surrender of headleases at 19-35 Baker Street W1. A new headlease was subsequently regranted and is included in 'additions' in Note 11. In addition, the Group also disposed of its leasehold interest in 17-39 George Street, 16-20 Baker Street, 27-33 Robert Adam Street and 26-27 Castlereagh Street W1 for gross proceeds of £45.2m (see note 22).

7. Finance income and total finance costs

	2021 £m	2020 £m
Finance income		
Bank interest receivable	**-**	0.2
Finance income	**-**	0.2
Finance costs		
Bank loans	**0.9**	2.3
Non-utilisation fees	**2.1**	1.7
Unsecured convertible bonds	**3.9**	3.9
Unsecured green bonds	**0.8**	-
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**15.6**	15.6
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.5**	2.2
Amortisation of the fair value of the secured bonds	**(1.3)**	(1.3)
Obligations under headleases	**0.7**	0.9
Other	**0.2**	0.2
Gross interest costs	**40.1**	40.2
Less: interest capitalised	**(12.0)**	(9.9)
Finance costs	**28.1**	30.3
Loan arrangement costs written off	**-**	0.1
Total finance costs	**28.1**	30.4

Finance costs of £12.0m (2020: £9.9m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid to 31 December 2021 were £37.0m (2020: £38.2m) of which £12.0m (2020: £9.9m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8. Financial derivative termination costs

The Group incurred costs of £1.9m in the year to 31 December 2021 (2020: £1.7m) deferring interest rate swaps.

9. Share of results of joint ventures

	2021 £m	2020 £m
Income	**0.4**	-
Administrative expenses	**(0.1)**	-
Revaluation deficit	**(10.2)**	-
	(9.9)	-
Joint venture acquisition costs incurred	**(4.0)**	-
	(13.9)	-

The share of results of joint ventures for the year ended 31 December 2021 includes the Group's 50% share in the Derwent Lazari Baker Street Limited Partnership since its formation in October 2021. See note 13 for further details of the Group's joint ventures.

10. Tax credit

	2021 £m	2020 £m
Corporation tax		
UK corporation tax and income tax in respect of results for the year	**0.9**	0.8
Other adjustments in respect of prior years' tax	**(0.4)**	(0.6)
Corporation tax charge	**0.5**	0.2
Deferred tax		
Origination and reversal of temporary differences	**(1.1)**	(2.0)
Adjustment for changes in estimates	**(0.7)**	0.2
Deferred tax credit	**(1.8)**	(1.8)
Tax credit	**(1.3)**	(1.6)

In addition to the tax credit of £1.3m (2020: £1.6m) that passed through the Group income statement, a deferred tax charge of £1.3m (2020: £0.2m) relating to the revaluation of the owner-occupied property at 25 Savile Row W1 and a charge of £0.4m (2020: credit of £0.4m) relating to the future defined benefit pension liabilities were recognised in the Group statement of comprehensive income.

The effective rate of tax for 2021 is lower (2020: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021 **£m**	2020 £m
Profit/(loss) before tax	**252.5**	(83.0)
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)[1]	**48.0**	(15.8)
Difference between tax and accounting profit on disposals	**(0.7)**	1.2
REIT exempt income	**(14.9)**	(14.7)
Revaluation (surplus)/deficit attributable to REIT properties	**(32.2)**	36.6
Expenses and fair value adjustments not allowable for tax purposes	**4.6**	(1.3)
Capital allowances	**(4.3)**	(5.3)
Other differences	**(1.4)**	(1.7)
Tax credit on current year's profit/(loss)	**(0.9)**	(1.0)
Adjustments in respect of prior years' tax	**(0.4)**	(0.6)
Tax credit	**(1.3)**	(1.6)

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2021 (on 24 May 2021) and include increasing the main rate to 25% effective on or after 1 April 2023. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

11. Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Carrying value							
At 1 January 2021	3,893.5	1,135.6	5,029.1	45.6	165.0	12.9	5,252.6
Acquisitions	214.6	139.0	353.6	-	-	-	353.6
Capital expenditure	76.6	88.4	165.0	-	-	1.1	166.1
Interest capitalisation	2.4	9.6	12.0	-	-	-	12.0
Additions	293.6	237.0	530.6	-	-	1.1	531.7
Disposals	(75.8)	(146.7)	(222.5)	-	(165.0)	(5.9)	(393.4)
Transfers	(63.7)	(63.0)	(126.7)	-	101.2	25.5	-
Revaluation	91.5	39.3	130.8	3.7	-	-	134.5
Write-down of trading property	-	-	-	-	-	(1.4)	(1.4)
Transfer from prepayments and accrued income	-	-	-	-	1.6	-	1.6
Movement in grossing up of headlease liabilities	-	3.8	3.8	-	-	-	3.8
Movement in grossing up of other liabilities	-	14.8	14.8	-	-	-	14.8
At 31 December 2021	**4,139.1**	**1,220.8**	**5,359.9**	**49.3**	**102.8**	**32.2**	**5,544.2**
At 1 January 2020	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9
Acquisitions	43.5	-	43.5	-	-	-	43.5
Capital expenditure	64.1	87.8	151.9	(0.1)	-	0.1	151.9
Interest capitalisation	4.6	5.1	9.7	-	-	0.2	9.9
Additions	112.2	92.9	205.1	(0.1)	-	0.3	205.3
Disposals	-	-	-	-	(118.6)	(26.3)	(144.9)
Transfers	(161.2)	-	(161.2)	-	161.2	-	-
Revaluation	(178.7)	(17.4)	(196.1)	0.4	-	-	(195.7)
Write-down of trading property	-	-	-	-	-	(1.8)	(1.8)
Transfer from prepayments and accrued income	-	-	-	-	3.8	-	3.8
Movement in grossing up of headlease liabilities	-	7.0	7.0	-	-	-	7.0
At 31 December 2020	3,893.5	1,135.6	5,029.1	45.6	165.0	12.9	5,252.6

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Adjustments from fair value to carrying value							
At 31 December 2021							
Fair value	**4,296.2**	**1,161.9**	**5,458.1**	**49.3**	**104.8**	**34.1**	**5,646.3**
Selling costs relating to assets held for sale	-	-	-	-	(2.0)	-	(2.0)
Revaluation of trading property	-	-	-	-	-	(1.9)	(1.9)
Lease incentives and costs included in receivables	(157.1)	(26.3)	(183.4)	-	-	-	(183.4)
Grossing up of headlease liabilities	-	70.4	70.4	-	-	-	70.4
Grossing up of other liabilities	-	14.8	14.8	-	-	-	14.8
Carrying value	**4,139.1**	**1,220.8**	**5,359.9**	**49.3**	**102.8**	**32.2**	**5,544.2**
At 31 December 2020							
Fair value	4,037.0	1,091.6	5,128.6	45.6	167.0	14.3	5,355.5
Selling costs relating to assets held for sale	-	-	-	-	(2.0)	-	(2.0)
Revaluation of trading property	-	-	-	-	-	(1.4)	(1.4)
Lease incentives and costs included in receivables	(143.5)	(22.5)	(166.0)	-	-	-	(166.0)
Grossing up of headlease liabilities	-	66.5	66.5	-	-	-	66.5
Carrying value	3,893.5	1,135.6	5,029.1	45.6	165.0	12.9	5,252.6

Reconciliation of fair value

	2021 £m	2020 £m
Portfolio including the Group's share of joint ventures and trading stock	**5,696.7**	5,355.5
Less: trading stock	**(0.4)**	-
Portfolio including the Group's share of joint ventures	**5,696.3**	5,355.5
Less: joint ventures	**(50.0)**	-
IFRS property portfolio	**5,646.3**	5,355.5

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2021 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation. There were no such instances in the year.

CBRE Limited valued properties at £5,610.8m (2020: £5,324.5m) and other valuers at £35.5m (2020: £31.0m), giving a combined value of £5,646.3m (2020: £5,355.5m). Of the properties revalued by CBRE, £49.3m (2020: £45.6m) relating to owner-occupied property was included within property, plant and equipment and £34.1m (2020: £14.3m) was in relation to trading property.

The total fees, including the fee for this assignment, earned by CBRE (or other companies forming part of the same group of companies within the UK) from the Group is less than 5.0% of their total UK revenues.

At 31 December 2021, the grossing up of other liabilities of £14.8m related to the discounted profit share to TfL for the development at Soho Place W1.

Following exchange of contracts in December 2021 for the sale of its freehold interest in New River Yard EC1, the Group transferred £63.7m from investment property to assets held for sale. This subsequently completed in January 2022. A revaluation deficit of £1.2m relating to the asset held for sale is included within the revaluation surplus of £130.8m.

Contracts exchanged in July 2020 for the sale of its leasehold interest in 2 & 4 Soho Place W1, with completion expected in 2022. As a result the Group transferred £37.5m from investment property to assets held for sale. A revaluation deficit of £0.8m relating to the asset held for sale is included within the revaluation surplus of £130.8m.

Net zero carbon and EPC compliance
The Group published its pathway to net zero carbon in July 2020 and has set 2030 as its target date to achieve this. £116.6m (year to 31 December 2020: £103.2m) of eligible 'green' expenditure was incurred in the year to 31 December 2021 on major developments at 80 Charlotte Street W1, Soho Place W1, The Featherstone Building EC1 and 19-35 Baker Street W1. As these have met the criteria to be eligible qualifying projects under the Green Finance Framework, the Group has utilised the green tranche of the £450m revolving credit facility and the £350m green bonds.

In 2021, the Group commissioned a third-party report to determine the costs of achieving EPC compliance across the portfolio by 2030. Results of the study indicate an estimated cost of c.£97m to upgrade the Group's properties to EPC 'B' or above. An exercise is underway to estimate the amount of capital expenditure that is recoverable through service charges or not already included within future planned refurbishment projects. Therefore, the amount has not been included as committed capital expenditure in 2021.

Reconciliation of revaluation surplus/(deficit)

	2021 £m	2020 £m
Total revaluation surplus/(deficit)	**142.9**	(178.5)
Less:		
Share of joint ventures	**13.9**	-
Lease incentives and costs	**(19.7)**	(16.7)
Assets held for sale selling costs	**(2.0)**	(2.0)
Trading property revaluation surplus	**(2.0)**	(0.3)
IFRS revaluation surplus/(deficit)	**133.1**	(197.5)
Reported in the:		
Revaluation surplus/(deficit)	**130.8**	(196.1)
Write-down of trading property	**(1.4)**	(1.8)
Group income statement	**129.4**	(197.9)
Group statement of comprehensive income	**3.7**	0.4
	133.1	(197.5)

Historical cost

	2021 £m	2020 £m
Investment property	**3,292.6**	3,149.2
Owner-occupied property	**19.6**	19.6
Assets held for sale	**38.5**	65.7
Trading property	**44.0**	22.6
Total property portfolio	**3,394.7**	3,257.1

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
True equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in gross ERV and would mitigate its impact on the fair value measurement.

A sensitivity analysis has been performed to ascertain the impact of a 25 basis point shift in true equivalent yield and a £2.50 per sq ft shift in ERV on the property valuations. The Group believes this captures the range of variations in these key valuation assumptions. The results are shown in the tables below:

	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.5%)	(4.9%)	(5.1%)	(3.0%)	(2.3%)	(5.3%)
-25bp	6.2%	5.4%	5.6%	3.2%	2.5%	5.9%
ERV						
+£2.50 psf	4.2%	4.8%	4.9%	19.3%	-	4.7%
-£2.50 psf	(4.2%)	(4.8%)	(4.9%)	(19.3%)	-	(4.7%)

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2021	45.6	1.0	3.6	50.2
Additions	-	-	1.3	1.3
Disposals	-	(0.1)	(0.1)	(0.2)
Depreciation	-	-	(0.9)	(0.9)
Revaluation	3.7	(0.1)	-	3.6
At 31 December 2021	**49.3**	**0.8**	**3.9**	**54.0**
At 1 January 2020	45.3	1.0	3.9	50.2
Additions	(0.1)	-	0.4	0.3
Depreciation	-	-	(0.7)	(0.7)
Revaluation	0.4	-	-	0.4
At 31 December 2020	45.6	1.0	3.6	50.2
Net book value				
Cost or valuation	49.3	0.8	8.0	58.1
Accumulated depreciation	-	-	(4.1)	(4.1)
At 31 December 2021	**49.3**	**0.8**	**3.9**	**54.0**
Net book value				
Cost or valuation	45.6	1.0	7.3	53.9
Accumulated depreciation	-	-	(3.7)	(3.7)
At 31 December 2020	45.6	1.0	3.6	50.2

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in December 2021. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historical cost of the artwork in the Group at 31 December 2021 was £0.9m (2020: £1.0m). See note 11 for the historical cost of owner-occupied property.

13. Investments

The Group has a 50% interest in four joint venture vehicles, Derwent Lazari Baker Street Limited Partnership, Dorrington Derwent Holdings Limited, Primister Limited and Prescot Street Limited Partnership.

	2021 £m	2020 £m
At 1 January	**0.9**	1.3
Additions	**64.1**	-
Joint venture acquisition costs	**(4.0)**	-
Revaluation deficit (see note 9)	**(10.2)**	-
Other profit from operations (see note 9)	**0.3**	-
Distributions received	**-**	(0.4)
At 31 December	**51.1**	0.9

In October 2021, the Group entered into a 50:50 joint venture with Lazari Investments Limited to establish the Derwent Lazari Baker Street Limited Partnership. The Group's 50% share was acquired for £64.1m, including £4.0m of acquisition costs and fees and £0.1m of working capital contributions. The joint venture holds three properties, 38-52 Baker Street W1, 54-60 Baker Street W1 and 66-70 Baker Street W1, is funded by loans from its partners and has no third party borrowings.

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture entities.

	2021		2020	
	Joint ventures £m	**Group share £m**	Joint ventures £m	Group share £m
Non-current assets	**100.5**	**50.2**	-	-
Current assets	**3.7**	**1.9**	1.2	0.6
Current liabilities	**(2.7)**	**(1.3)**	(0.7)	(0.3)
Non-current liabilities	**(120.8)**	**(60.4)**	-	-
Net assets	**(19.3)**	**(9.6)**	0.5	0.3
Loans provided to joint ventures		**60.7**		0.6
Total investment in joint ventures		**51.1**		0.9

14. Other receivables (non-current)

	2021 £m	2020 £m
Prepayments and accrued income	**159.3**	146.4

Prepayments and accrued income include £147.0m (2020: £132.3m) after impairments (see note 3) relating to rents recognised in advance as a result of spreading tenant lease incentives over the expected terms of their respective leases. This includes rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts. In addition, £12.3m (2020: £14.1m) relates to the spreading effect of the initial direct costs of letting over the same term. Together with £24.1m (2020: £19.6m), which was included as accrued income within trade and other receivables (see note 15), these amounts totalled £183.4m at 31 December 2021 (2020: £166.0m).

The total movement in tenant lease incentives is shown below:

	2021 £m	2020 £m
At 1 January	**149.7**	135.9
Amounts taken to income statement	**19.9**	23.0
Capital incentives granted	**0.7**	0.5
Lease incentive impairment	**0.3**	(5.7)
Adjustment for non-current asset held for sale	**(1.6)**	(3.2)
Disposal of investment properties	**(0.5)**	-
Write off to bad debt	**(0.3)**	(0.8)
	168.2	149.7
Amounts included in trade and other receivables (see note 15)	**(21.2)**	(17.4)
At 31 December	**147.0**	132.3

15. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	**6.9**	27.5
Other receivables	**3.7**	4.1
Prepayments	**24.7**	22.6
Accrued income	**26.4**	22.0
	61.7	76.2

Trade receivables are split as follows:

	2021 £m	2020 £m
less than three months due	**6.8**	17.4
between three and six months due	**0.1**	3.5
between six and twelve months due	**-**	6.6
	6.9	27.5

Trade receivables as at 31 December 2021 are stated net of impairment. The balances have reduced over the year as amounts deferred or uncollected in 2020 were received. As a result, the expected credit loss assessment under IFRS 9 (see note 3) was lower than in 2020.

The Group has £9.5m of provision for bad debts as shown below. £4.1m are included in trade receivables, £0.7m in accrued income and £4.7m in prepayments and accrued income within other receivables (non-current) (note 14).

Provision for bad debts

	2021 £m	2020 £m
At 1 January	**9.3**	0.4
Lease incentive provision	**(0.2)**	5.7
Trade receivables provision	**0.8**	3.2
Service charge provision	**0.1**	0.3
Released	**(0.5)**	(0.3)
At 31 December	**9.5**	9.3

The provision for bad debts are split as follows:

	2021 £m	2020 £m
less than three months due	**4.3**	3.2
between three and six months due	**0.2**	0.5
between six and twelve months due	**0.3**	1.0
greater than twelve months due	**4.7**	4.6
	9.5	9.3

16. Non-current assets held for sale

	2021 **£m**	2020 £m
Transferred from investment properties (see note 11)	**101.2**	161.2
Transferred from prepayments and accrued income	**1.6**	3.8
	102.8	165.0

In December 2021, the Group exchanged contracts for the sale of its freehold interest in New River Yard EC1. The property was valued at £66.5m as at 31 December 2021. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £1.2m, the carrying value was £65.3m (see note 11).

In July 2020, the Group exchanged contracts on the sale of its leasehold interest in 2 & 4 Soho Place W1. The property was valued at £38.3m as at 31 December 2021. The disposal is expected to complete in 2022 and therefore, in accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale. After deducting selling costs of £0.8m, the carrying value at 31 December 2021 was £37.5m (see note 11).

17. Trade and other payables

	2021 **£m**	2020 £m
Trade payables	**3.2**	2.5
Other payables	**38.0**	21.2
Other taxes	**8.0**	4.0
Accruals	**37.2**	32.0
Deferred income	**41.9**	47.0
	128.3	106.7

Deferred income primarily relates to rents received in advance.

At 31 December 2021, other payables included £14.8m discounted profit share for the development at Soho Place W1 (see note 11).

18. Net debt and derivative financial instruments

	2021		2020	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Current liabilities				
Other loans	**12.3**	**12.3**	-	-
	12.3	**12.3**	-	-
Non-current liabilities				
1.5% unsecured convertible bonds 2025	**168.3**	**174.0**	166.4	174.2
6.5% secured bonds 2026	**182.4**	**205.7**	183.6	220.3
1.875% unsecured green bonds 2031	**346.0**	**344.6**	-	-
Unsecured private placement notes 2026 - 2034	**453.0**	**493.1**	452.9	526.4
3.99% secured loan 2024	**82.5**	**85.6**	82.3	89.1
Unsecured bank loans	**4.9**	**10.0**	120.1	125.0
Secured bank loans	**-**	**-**	27.9	28.0
Borrowings	**1,249.4**	**1,325.3**	1,033.2	1,163.0
Derivative financial instruments expiring in less than one year	**0.4**	**0.4**	-	-
Derivative financial instruments expiring in greater than one year	**0.4**	**0.4**	5.6	5.6
Total borrowings and derivative financial instruments	**1,250.2**	**1,326.1**	1,038.8	1,168.6

	2021	2020
Reconciliation to net debt:		
Borrowings and derivative financial instruments	**1,250.2**	1,038.8
Adjustments for:		
Leasehold liabilities	**70.6**	66.6
Derivative financial instruments	**(0.8)**	(5.6)
Cash and cash equivalents	**(68.5)**	(50.7)
Net debt	**1,251.5**	1,049.1

The fair values of the Group's bonds have been estimated on the basis of quoted market prices, representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement.

The fair values of the 3.99% secured loan and the unsecured private placement notes were determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilts plus the implied margins, and represent Level 2 fair value measurement.

The fair values of the Group's outstanding interest rate swaps have been estimated by using the mid-point of the yield curves prevailing on the reporting date and represent the net present value of the differences between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates. These represent Level 2 fair value measurement.

The fair value of the Group's bank loans is approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees, and also represents Level 2 fair value measurement.

The fair value of the following financial assets and liabilities are the same as their carrying amounts:

- Cash and cash equivalents.
- Trade receivables, other receivables and accrued income included within trade and other receivables.
- Trade payables, other payables and accruals included within trade and other payables.
- Leasehold liabilities.

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2021 or 2020.

Other loans consist of a £12.3m interest-free loan with no fixed repayment date from a third party providing development consultancy services on the residential element of the 19-35 Baker Street W1 development. The loan will be repaid from the sale proceeds of these residential apartments after completion of the scheme. The agreement provides for a profit share on completion of the sales which, under IFRS 9 Financial Instruments, has been deemed to have a carrying value of £nil at 31 December 2021 (2020: £nil). The carrying value of the loan at 31 December 2021 was £12.3m (2020: £nil).

The Group's secured bank loan was settled during the year in advance of the acquisition of the non-controlling interest from The Portman Estate, see note 22. The loan was previously secured by a fixed charge over £105.2m of the Group's properties as at 31 December 2020. The 3.99% secured loan 2024 was secured by a fixed charge over £305.2m (31 December 2020: £304.5m) of the Group's properties. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £571.8m (31 December 2020: £616.5m) of the Group's properties.

The Group continues to maintain significant headroom on all financial covenants.

19. Deferred tax

	Revaluation surplus/(deficit) £m	Other £m	Total £m
At 1 January 2021	3.5	(3.0)	0.5
(Credited)/charged to the income statement	(1.6)	0.5	(1.1)
Change in tax rates in the income statement	0.1	(0.8)	(0.7)
Charged to other comprehensive income	0.9	0.5	1.4
Credited to equity	-	(0.7)	(0.7)
Change in tax rates in other comprehensive income	0.4	(0.1)	0.3
At 31 December 2021	**3.3**	**(3.6)**	**(0.3)**
At 1 January 2020	3.3	(2.1)	1.2
Credited to the income statement	(0.3)	(1.7)	(2.0)
Change in tax rates in the income statement	0.3	(0.1)	0.2
Charged/(credited) to other comprehensive income	0.1	(0.4)	(0.3)
Charged to equity	-	1.3	1.3
Change in tax rates in other comprehensive income	0.1	-	0.1
At 31 December 2020	3.5	(3.0)	0.5

Deferred tax on the balance sheet revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the property portfolio at each balance sheet date. The calculation takes account of any available indexation on the historical cost of the properties. Due to the Group's REIT status, deferred tax is only provided at each balance sheet date on properties outside the REIT ring-fence.

20. Dividend

	Payment date	Dividend per share PID p	Non-PID p	Total p	**2021 £m**	2020 £m
Current year						
2021 final dividend[1]	1 June 2022	35.50	18.00	53.50	**-**	-
2021 interim dividend	15 October 2021	23.00	-	23.00	**25.8**	-
		58.50	18.00	76.50		
Prior year						
2020 final dividend	4 June 2021	35.00	17.45	52.45	**58.8**	-
2020 interim dividend	16 October 2020	22.00	-	22.00	**-**	24.6
		57.00	17.45	74.45		
2019 final dividend	5 June 2020	34.45	17.00	51.45	**-**	57.6
Dividends as reported in the Group statement of changes in equity					**84.6**	82.2
2021 interim dividend withholding tax	14 January 2022				**(3.5)**	-
2020 interim dividend withholding tax	14 January 2021				**3.2**	(3.2)
2019 interim dividend withholding tax	14 January 2020				**-**	2.8
Dividends paid as reported in the Group cash flow statement					**84.3**	81.8

[1] Subject to shareholder approval at the AGM on 13 May 2022.

21. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank	**68.5**	50.7

22. Non-controlling interest

In September 2021, the Group exercised its development option at 19-35 Baker Street W1 with The Portman Estate (“TPE”). As per the agreement, the Group acquired TPE’s 45% non-controlling interest for a consideration of £53.4m and disposed of properties in 17-39 George Street, 16-20 Baker Street, 27-33 Robert Adam Street and 26-27 Castlereagh Street W1 for gross proceeds of £45.2m. The Group’s original headleases for the development site were surrendered and a new 129-year headlease was subsequently granted providing additional development rights across the 19-35 Baker Street W1 site. This surrender and regrant of the headleases was a non-cash transaction and has been treated as a £100.7m disposal and subsequent acquisition. As part of the scheme, the Group will develop a portion of the site for TPE and the costs associated with this are recognised as trading stock per IAS 2 Inventories.

23. Post balance sheet events

In January 2022, the Group acquired the leasehold interest in 230 Blackfriars Road SE1 for £55.0m before costs.

In January 2022, the Group exchanged contracts for the disposal of its freehold interest in New River Yard EC1 for £67.5m before costs and rental top-ups.

In January 2022, the Group signed the main construction contract for the 19-35 Baker Street W1 development amounting to £158.4m.

24. Related parties

There have been no related party transactions for the year ended 31 December 2021 that have materially affected the financial position or performance of the Group. All related party transactions are materially consistent with those disclosed by the Group in its financial statements.

25. EPRA performance measures (unaudited)

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2021 '000	2020 '000	**2021 '000**	2020 '000
For use in basic measures	**112,139**	111,912	**112,209**	111,961
Dilutive effect of share-based payments	**273**	350	**308**	341
For use in diluted measures	**112,412**	112,262	**112,517**	112,302

The £175m unsecured convertible bonds 2025 ('2025 bonds') have an initial conversion price set at £44.96.

The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For the year ended 31 December 2020 and 2021, the Group did not recognise the dilutive impact of the conversion of the 2025 bonds on its earnings per share (EPS) or net asset value (NAV) per share metrics as, based on the share price at the end of each year, the bonds were not expected to convert.

The following tables set out reconciliations between the IFRS and EPRA earnings for the year and earnings per share. The adjustments made between the figures are as follows:

A – Disposal of investment and trading property (including the Group’s share in joint ventures), and associated tax and non-controlling interest.
B – Revaluation movement on investment property and in joint ventures, write-down of trading property and associated deferred tax and non-controlling interest.
C – Fair value movement and termination costs relating to derivative financial instruments, associated non-controlling interest and loan arrangement costs written off.

Earnings and earnings per share

	IFRS £m	Adjustments A £m	B £m	C £m	EPRA basis £m
Year ended 31 December 2021					
Net property and other income	187.5	(0.7)	1.4	-	188.2
Total administrative expenses	(37.1)	-	-	-	(37.1)
Revaluation surplus	130.8	-	(130.8)	-	-
Profit on disposal of investments	10.4	(10.4)	-	-	-
Net finance costs	(28.1)	-	-	-	(28.1)
Movement in fair value of derivative financial instruments	4.8	-	-	(4.8)	-
Financial derivative termination costs	(1.9)	-	-	1.9	-
Share of results of joint ventures	(13.9)	-	14.2	-	0.3
Profit before tax	252.5	(11.1)	(115.2)	(2.9)	123.3
Tax credit	1.3	-	(1.5)	-	(0.2)
Profit for the year	253.8	(11.1)	(116.7)	(2.9)	123.1
Non-controlling interest	(1.5)	-	0.4	-	(1.1)
Earnings attributable to equity shareholders	**252.3**	**(11.1)**	**(116.3)**	**(2.9)**	**122.0**
Earnings per share	**224.99p**				**108.79p**
Diluted earnings per share	224.44p				108.53p

	IFRS £m	Adjustments A £m	B £m	C £m	EPRA basis £m
Year ended 31 December 2020					
Net property and other income	183.0	(5.2)	1.8	-	179.6
Total administrative expenses	(37.8)	-	-	-	(37.8)
Revaluation deficit	(196.1)	-	196.1	-	-
Profit on disposal of investments	1.7	(1.7)	-	-	-
Net finance costs	(30.2)	-	-	0.1	(30.1)
Movement in fair value of derivative financial instruments	(1.9)	-	-	1.9	-
Financial derivative termination costs	(1.7)	-	-	1.7	-
(Loss)/profit before tax	(83.0)	(6.9)	197.9	3.7	111.7
Tax credit	1.6	(1.0)	-	-	0.6
(Loss)/profit for the year	(81.4)	(7.9)	197.9	3.7	112.3
Non-controlling interest	3.8	-	(5.1)	-	(1.3)
Earnings attributable to equity shareholders	(77.6)	(7.9)	192.8	3.7	111.0
(Loss)/earnings per share	(69.34p)				99.19p
Diluted (loss)/earnings per share	(69.34p)				98.88p

The diluted loss per share for the period to 31 December 2020 was restricted to a loss of 69.34p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

EPRA Net Asset Value metrics

	2021 £m	2020 £m
Net assets attributable to equity shareholders	4,441.8	4,263.2
Adjustment for:		
Revaluation of trading properties	1.9	1.4
Deferred tax on revaluation surplus[1]	1.7	1.8
Fair value of derivative financial instruments	0.8	5.6
Fair value adjustment to secured bonds	8.0	9.3
Non-controlling interest in respect of the above[1]	-	(0.4)
EPRA Net Tangible Assets	**4,454.2**	4,280.9
Per share measure - diluted	**3,959p**	3,812p
Net assets attributable to equity shareholders	4,441.8	4,263.2
Adjustment for:		
Revaluation of trading properties	1.9	1.4
Fair value adjustment to secured bonds	8.0	9.3
Mark-to-market of fixed rate debt	(69.5)	(127.8)
Unamortised issue and arrangement costs	(12.6)	(11.3)
EPRA Net Disposal Value	**4,369.6**	4,134.8
Per share measure - diluted	**3,884p**	3,682p
Net assets attributable to equity shareholders	4,441.8	4,263.2
Adjustment for:		
Revaluation of trading properties	1.9	1.4
Deferred tax on revaluation surplus	3.3	3.5
Fair value of derivative financial instruments	0.8	5.6
Fair value adjustment to secured bonds	8.0	9.3
Non-controlling interest in respect of the above	-	(0.7)
Purchasers' costs[2]	383.9	364.2
EPRA Net Reinstatement Value	**4,839.7**	4,646.5
Per share measure - diluted	**4,301p**	4,138p

[1] Only 50% of the deferred tax on the revaluation surplus is excluded.
[2] Includes Stamp Duty Land Tax. Total costs assumed to be 6.8% of the portfolio's fair value.

Cost ratios

	2021 £m	2020 £m
Administrative expenses	**37.1**	37.8
Write-off/impairment of receivables	**0.8**	10.1
Service charge waiver	**-**	4.1
Other property costs	**10.4**	10.5
Dilapidation receipts	**(0.9)**	-
Net service charge costs	**3.4**	2.8
Service charge costs recovered through rents but not separately invoiced	**(0.6)**	(0.4)
Management fees received less estimated profit element	**(3.5)**	(3.5)
Share of joint ventures' expenses	**(0.1)**	-
EPRA costs (including direct vacancy costs) (A)	**46.6**	61.4
Direct vacancy costs	**(6.1)**	(9.0)
EPRA costs (excluding direct vacancy costs) (B)	**40.5**	52.4
Gross rental income	**194.2**	202.9
Ground rent	**(1.4)**	(1.1)
Service charge components of rental income	**(0.5)**	(0.4)
Share of joint ventures' rental income less ground rent	**(0.5)**	-
Adjusted gross rental income (C)	**191.8**	201.4
EPRA cost ratio (including direct vacancy costs) (A/C)	**24.3%**	30.5%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**21.1%**	26.0%
Property portfolio at fair value (D)	**5,646.3**	5,355.5
Portfolio cost ratio (A/D)	**0.8%**	1.1%

The Group has not capitalised any overheads in either 2021 or 2020.

Property-related capital expenditure

	2021			2020		
	Group (excl. Joint ventures)	**Joint ventures (50% share)**	**Total Group**	Group (excl. Joint ventures)	Joint ventures (50% share)	Total Group
	£m	**£m**	**£m**	£m	£m	£m
Acquisitions	**353.6**	**60.0**	**413.6**	43.5	-	43.5
Development	**146.6**	**0.2**	**146.8**	134.1	-	134.1
Investment properties						
Incremental lettable space	**0.1**	**-**	**0.1**	-	-	-
No incremental lettable space	**16.7**	**-**	**16.7**	16.3	-	16.3
Tenant incentives	**2.5**	**-**	**2.5**	1.5	-	1.5
Capitalised interest	**12.0**	**-**	**12.0**	9.9	-	9.9
Total capital expenditure	**531.5**	**60.2**	**591.7**	205.3	-	205.3
Conversion from accrual to cash basis[1]	**(107.6)**	**(0.2)**	**(107.8)**	11.9	-	11.9
Total capital expenditure on a cash basis	**423.9**	**60.0**	**483.9**	217.2	-	217.2

[1] The conversion from accrual to cash basis figure includes £100.7m in relation to the regrant of a headlease at 19-35 Baker Street W1, see note 22.

26. Gearing and interest cover

NAV gearing

	2021 £m	2020 £m
Net debt	**1,251.5**	1,049.1
Net assets	**4,441.8**	4,315.1
NAV gearing	**28.2%**	24.3%

Loan-to-value ratio

	2021 £m	2020 £m
Group loan-to-value		
Net debt	**1,251.5**	1,049.1
Fair value adjustment of secured bonds	**(8.0)**	(9.3)
Unamortised discount on unsecured green bonds	**1.8**	-
Unamortised issue and arrangement costs	**12.6**	11.3
Leasehold liabilities	**(70.6)**	(66.6)
Drawn debt net of cash	**1,187.3**	984.5
Fair value of property portfolio	**5,646.3**	5,355.5
Group loan-to-value ratio	**21.0%**	18.4%
Proportionally consolidated loan-to-value		
Drawn debt net of cash	**1,187.3**	984.5
Share of joint ventures cash and cash equivalents	**(1.2)**	(0.6)
Drawn debt net of cash	**1,186.1**	984.5
Fair value of property portfolio	**5,646.3**	5,355.5
Share of fair value of property portfolio of joint ventures	**50.0**	-
Fair value of property portfolio including Group's share of joint ventures	**5,696.3**	5,355.5
Proportionally consolidated loan-to-value	**20.8%**	18.4%

Net interest cover ratio

	2021 £m	2020 £m
Group net interest cover ratio		
Net property and other income	**187.5**	183.0
Adjustments for:		
Other income	**(3.5)**	(3.5)
Other property income	**(2.0)**	(0.9)
Surrender premiums received	**(3.6)**	(0.9)
Write-down of trading property	**1.4**	1.8
Profit on disposal of trading properties	**(0.7)**	(5.2)
Adjusted net property income	**179.1**	174.3
Finance income	**-**	(0.2)
Finance costs	**28.1**	30.3
Adjustments for:		
Finance income	**-**	0.2
Other finance costs	**(0.2)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.3**	1.3
Amortisation of issue and arrangement costs	**(2.5)**	(2.2)
Finance costs capitalised	**12.0**	9.9
Net interest payable	**38.7**	39.1
Group net interest cover ratio	**463%**	446%
Proportionally consolidated net interest cover ratio		
Adjusted net property income	**179.1**	174.3
Share of joint ventures' net property income	**0.4**	-
Adjusted net property income including share of joint ventures	**179.5**	174.3
Net interest payable	**38.7**	39.1
Proportionally consolidated net interest cover ratio	**464%**	446%

27. Total return (unaudited)

	2021 p	2020 p
EPRA Net Tangible Assets on a diluted basis		
At end of year	**3,959**	3,812
At start of year	**(3,812)**	(3,957)
Increase/(decrease)	**147**	(145)
Dividend per share	**75**	73
Increase/(decrease) including dividend	**222**	(72)
Total return	**5.8%**	(1.8%)

28. List of definitions

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Capital return
The annual valuation movement arising on the Group's portfolio expressed as a percentage return on the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

Company Voluntary Arrangement (CVA)
An insolvency procedure allowing a company with debt problems or that is insolvent to reach a voluntary agreement with its creditors to repay its debt over a fixed period.

Diluted figures
Reported results adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds.

Earnings/earnings per share (EPS)
Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

Energy Performance Certificate (EPC)
An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

Estimated rental value (ERV)
This is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA Earnings Per Share**

Earnings from operational activities.

- **EPRA Net Reinstatement Value (NRV) per share**

NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded.

- **EPRA Net Tangible Assets (NTA) per share**

Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

- **EPRA Net Disposal Value (NDV) per share**

Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

- **EPRA Cost Ratio (including direct vacancy costs)**

EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.

- **EPRA Cost Ratio (excluding direct vacancy costs)**

Calculated as above, but with an adjustment to exclude direct vacancy costs.

- **EPRA Net Initial Yield (NIY)**

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

- **EPRA 'topped-up' Net Initial Yield**

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

- **EPRA Vacancy Rate**

Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.

In addition, the Group has adopted the following recommendation for investment property reporting.

- **EPRA like-for-like rental income growth**

The growth in rental income on properties owned throughout the current and previous year under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year and properties acquired or disposed of in either year.

Fair value adjustment
An accounting adjustment to change the book value of an asset or liability to its market value.

Ground rent
The rent payable by the Group for its leasehold properties. Under IFRS, a liability is recognised using the discounted payments due. Fixed lease payments made are allocated between the interest payable and the reduction in the outstanding liability. Any variable payments are recognised in the income statement in the period to which it relates.

Headroom
This is the amount left to draw under the Group's loan facilities (i.e. the total loan facilities less amounts already drawn).

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating rate debt to fixed rates.

Key Performance Indicators (KPIs)
Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed.

Lease incentives
Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free or half rent period, stepped rents, or a cash contribution to fit-out or similar costs.

Loan-to-value ratio (LTV)
Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less cash and the unamortised equity element of the convertible bonds.

Mark-to-market
The difference between the book value of an asset or liability and its market value.

MSCI Inc. (MSCI IPD)
MSCI Inc. is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

National Australian Built Environment Rating System (NABERS)
This is a building performance rating system which provides an energy performance benchmark using a simple star rating system on a 1-6 scale. This helps property owners understand and communicate a building's performance versus other similar buildings to occupiers. Ratings are validated on an annual basis.

NAV gearing
Net debt divided by net assets.

Net assets per share or net asset value (NAV)
Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Net debt
Borrowings plus bank overdraft less cash and cash equivalents.

Net interest cover ratio
Net property income, excluding all non-core items divided by interest payable on borrowings and non-utilisation fees.

Property income distribution (PID)
Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

Non-PID
Dividends from profits of the Group's taxable residual business.

Real Estate Investment Trust (REIT)
The UK Real Estate Investment Trust ("REIT") regime was launched on 1 January 2007. On 1 July 2007, Derwent London plc elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publicly available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution (PID). These distributions can be subject to withholding tax at 20%.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors (non-PID).

Rent reviews
Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Reversion
The reversion is the amount by which ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of space that is vacant and available to occupy or under development or refurbishment.

Scrip dividend
Derwent London plc sometimes offers its shareholders the opportunity to receive dividends in the form of shares instead of cash. This is known as a scrip dividend.

Task Force on Climate-related Financial Disclosures (TCFD)
Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

'Topped-up' rent
Annualised rents generated by the portfolio plus rent contracted from expiry of rent free periods and uplifts agreed at the balance sheet date.

Total property return (TPR)
Total property return is a performance measure calculated by the MSCI IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as 'the percentage value change plus net income accrual, relative to the capital employed'.

Total return
The movement in EPRA Net Tangible Assets per share on a diluted basis between the beginning and the end of each financial year plus the dividend per share paid during the year expressed as a percentage of the EPRA Net Tangible Assets per share on a diluted basis at the beginning of the year.

Total shareholder return (TSR)
The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the year, expressed as a percentage of the share price at the beginning of the year.

Transmission and distribution (T&D)
The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Underlying portfolio
Properties that have been held for the whole of the year (i.e. excluding any acquisitions or disposals made during the year).

Underlying valuation increase
The valuation increase on the underlying portfolio.

Well to tank (WTT)
The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.

Yields

- **Net initial yield**

Annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.

- **Reversionary yield**

The anticipated yield to which the net initial yield will rise once the rent reaches the estimated rental values.

- **True equivalent yield**

The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.

- **Yield shift**

A movement in the yield of a property asset, or like-for-like portfolio, over a given period. Yield compression is a commonly-used term for a reduction in yields.

29. Copies of this announcement will be available on the Company's website, www.derwentlondon.com, from the date of this statement. Copies will also be available from the Company Secretary, Derwent London plc, 25 Savile Row, London, W1S 2ER.

Notes to editors

Derwent London plc

Derwent London plc owns 77 buildings in a commercial real estate portfolio predominantly in central London valued at £5.7 billion as at 31 December 2021, making it the largest London-focused real estate investment trust (REIT).

Our experienced team has a long track record of creating value throughout the property cycle by regenerating our buildings via development or refurbishment, effective asset management and capital recycling.

We typically acquire central London properties off-market with low capital values and modest rents in improving locations, most of which are either in the West End or the Tech Belt. We capitalise on the unique qualities of each of our properties – taking a fresh approach to the regeneration of every building with a focus on anticipating tenant requirements and an emphasis on design.

Reflecting and supporting our long-term success, the business has a strong balance sheet with modest leverage, a robust income stream and flexible financing.

As part of our commitment to lead the industry in mitigating climate change, Derwent London has committed to becoming a net zero carbon business by 2030, publishing its pathway to achieving this goal in July 2020. In 2019 the Group became the first UK REIT to sign a Revolving Credit Facility with a 'green' tranche. At the same time, we also launched our Green Finance Framework and signed the Better Buildings Partnership's climate change commitment. The Group is a member of the 'RE100' which recognises Derwent London as an influential company, committed to 100% renewable power by purchasing renewable energy, a key step in becoming a net zero carbon business. Derwent London is one of only a few property companies worldwide to have science-based carbon targets validated by the Science Based Targets initiative (SBTi).

Landmark schemes in our 5.6 million sq ft portfolio include 80 Charlotte Street W1, Brunel Building W2, White Collar Factory EC1, Angel Building EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In January 2022 we were proud to announce that we had achieved the National Equality Standard – the UK's highest benchmark for equality, diversity and inclusion. In October 2021 Derwent London won EG's UK Company of the Year award and in January 2021 came top of the Property Sector and 10th position overall in Management Today's Britain's Most Admired Companies awards 2020. In 2020 the Group won several awards for Brunel Building with the most prominent being the BCO Best Commercial Workplace award. In 2019 the Group won EG Offices Company of the Year, the CoStar West End Deal of the Year for Brunel Building and Westminster Business Council's Best Achievement in Sustainability award. In 2013 the Company launched a voluntary Community Fund and has to date supported well over 100 community projects in the West End and the Tech Belt.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER.

For further information see www.derwentlondon.com or follow us on Twitter at @derwentlondon

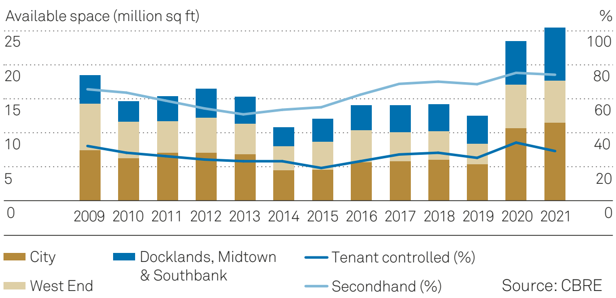
Forward-looking statements

This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Derwent London does not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast.

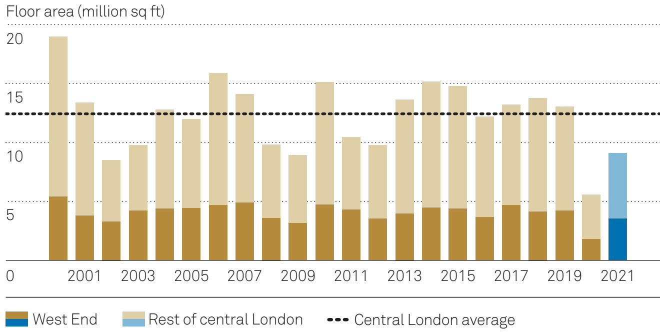
Appendix 1
Our market

Breakdown of available space



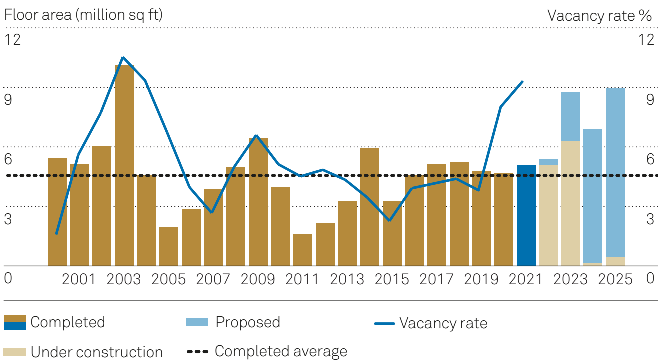
Source: CBRE

Central London office take-up



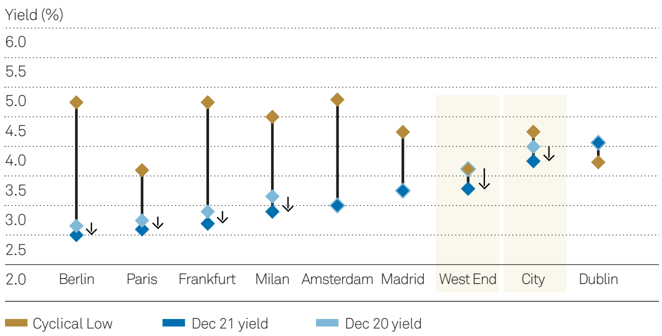
Source: CBRE

Central London development pipeline



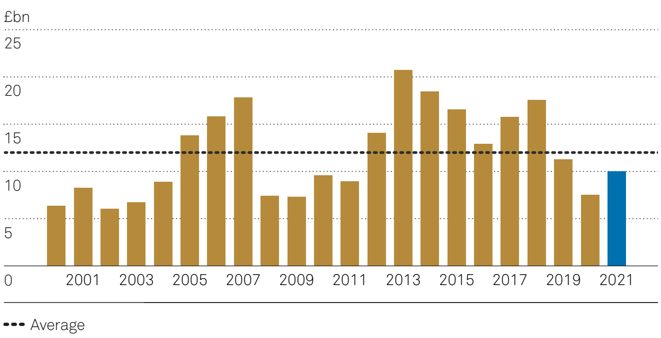
Source: CBRE

European yields



Source: CBRE

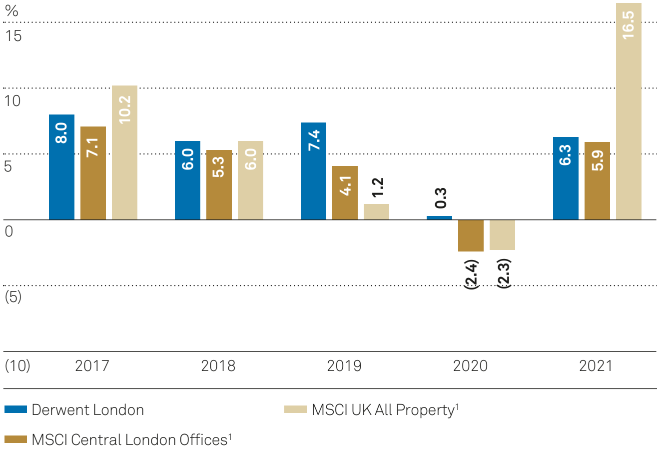
Central London office investment transactions



Source: CBRE

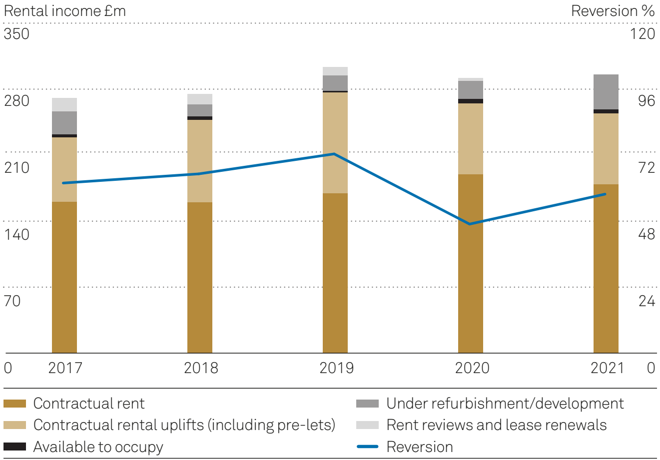
Appendix 2
Valuation

Total property return

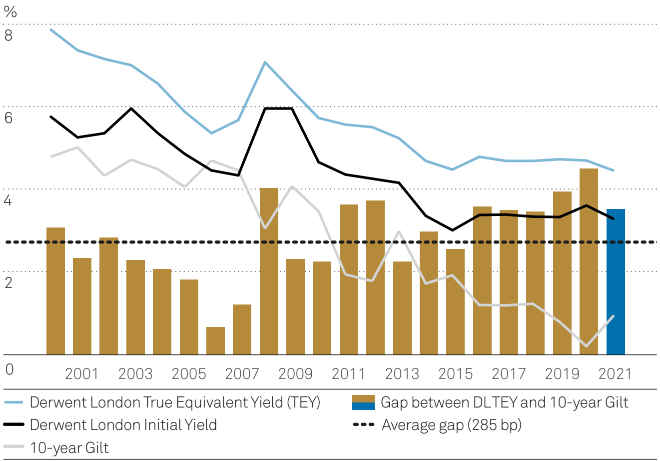


[1] Quarterly Index

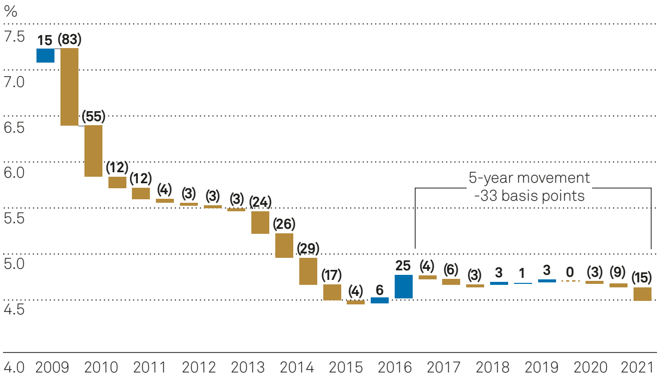
Portfolio income potential



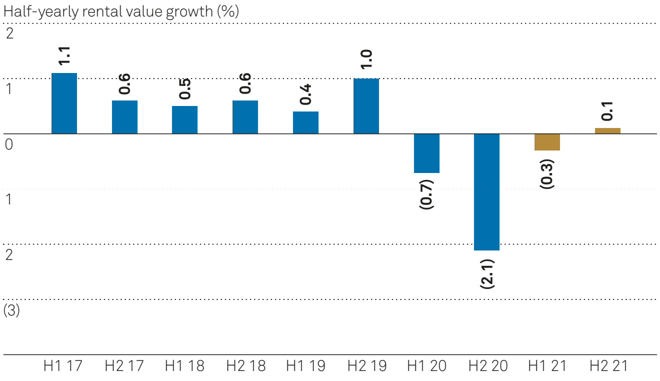
Valuation yields



True equivalent yield



Rental value growth



Appendix 2
Valuation

Portfolio statistics – valuation

		Valuation £m	Weighting %	Valuation[1] performance %	Let floor area[2] '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central		3,483.6	61	4.2	2,573	38	157	334	3,102
Borders		431.4	8	1.5	419	10	0	0	429
		3,915.0	69	3.9	2,992	48	157	334	3,531
City									
Borders		1,698.7	30	2.5	1,415	96	79	125	1,715
Central London		5,613.7	99	3.4	4,407	144	236	459	5,246
Provincial		83.0	1	9.9	326	2	0	0	328
Total portfolio	**2021**	**5,696.7**	**100**	**3.5**	**4,733**	**146**	**236**	**459**	**5,574**
	2020	5,355.5	100	(3.0)	5,110	169	54	231	5,564

1 Underlying – properties held throughout the year
2 Includes pre-lets

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		178.4
Contractual rental increases across the portfolio	54.6	
Contractual rental from 287,000 sq ft pre-lets on developments	19.9	
Letting 146,000 sq ft available floor area	3.8	
Completion and letting 236,000 sq ft of refurbishments	7.2	
Completion and letting 459,000 sq ft of developments	30.1	
Anticipated rent review and lease renewal reversions	5.8	
Future contracted growth above ERV	(5.9)	
Portfolio reversion		115.5
Potential portfolio rental value		293.9

Portfolio statistics – rental income

		Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Lease reversion per annum[1] £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[2] Years
West End							
Central		90.1	35.29	26.3	62.2	178.6	7.0
Borders		21.3	51.11	0.4	0.4	22.1	7.3
		111.4	37.51	26.7	62.6	200.7	7.0
City							
Borders		62.5	44.92	14.4	11.5	88.4	5.4
Central London		173.9	39.89	41.1	74.1	289.1	6.4
Provincial		4.5	13.94	0.0	0.3	4.8	2.8
Total portfolio	**2021**	**178.4**	**38.10**	**41.1**	**74.4**	**293.9**	**6.3[3]**
	2020	189.2	37.40	23.9	78.1	291.2	6.2

1 Contracted uplifts, rent reviews/lease renewal reversion and pre-lets
2 Lease length weighted by rental income at year end and assuming tenants break at first opportunity
3 7.8 years after adjusting for 'topped-up' rents and pre-lets

Appendix 3

Acquisitions & disposals

Major acquisitions

Property	Date	Area sq ft[1]	Total cost £m	Net yield %	Net rental income £m pa	Net rental income £psf
H1 2021						
Holford Works WC1[1]	Q2	41,600	23.7	6.9	1.6	40.00
H2 2021						
Bush House WC2[2]	Q3	103,700	14.5	–	–	–
250 Euston Road NW1	Q3	165,900	190.3	2.5	4.7	28.30
171-174 Tottenham Court Road W1	Q3	16,200	24.3	2.6	0.6	57.50
Baker Street W1 JV (50% share)	Q4	61,100	64.0[3]	4.0	2.6	42.50
		388,500	316.8	–	9.5	–
19-35 Baker Street W1 (headlease regear)	Q4	–	100.7	–	–	–
		388,500	417.5	–	9.5	–
2022 to date						
230 Blackfriars Road SE1	Q1	60,300	58.3	3.5	2.1	41.00

1 Long leasehold
2 Leasehold
3 Subject to receiving planning and regear of the headlease an additional £7.25m is payable

Major disposals

Property	Date	Area sq ft	Net proceeds £m	Net yield to purchaser %	Rent £m
2021					
Johnson Building EC1	Q1	192,700	165.6	4.1	7.3
Angel Square EC1[1]	Q3	126,200	85.0	–	–
The Portman Estate properties[2]	Q4	50,600	45.1	–	–
		369,500	295.7	–	7.3
19-35 Baker Street W1 (headlease surrender)	Q4	–	100.7	–	–
		369,500	396.4	–	7.3
2022 exchanged					
New River Yard EC1	Q1	70,700	66.0	4.5	3.3

1 Sold with vacant possession
2 Includes 16-20 Baker Street, 27-33 Robert Adam Street, 17-39 George Street and 26-27 Castlereagh Street W1

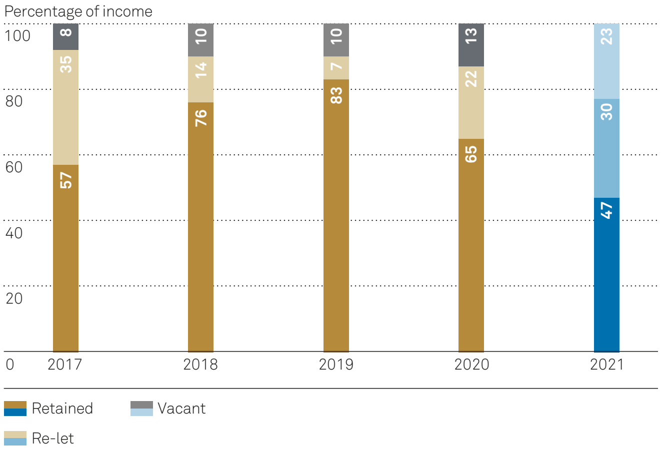
Appendix 4

Leasing, asset management & property management

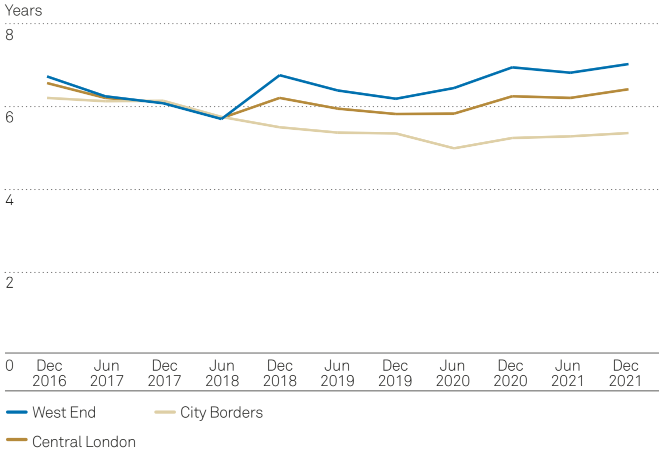
Principal lettings in 2021

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Lease term years	Lease break year	Rent-free equivalent months
H1							
20 Farringdon Road EC1	Depop	33,500	**52.50**	1.8	5	3	9, plus 4 if no break
Tea Building E1	Soho House	7,600	**50.00**	0.4	10	-	24
H2							
Francis House SW1	Edelman	38,200	**76.00**	2.9	15	10	25, plus 9 if no break
6-8 Greencoat Place SW1	Fora	32,400	**68.50**	2.2	15	-	34
Charlotte Building W1	The & Partnership	14,900	**67.50**	1.0	5	-	10
80 Charlotte Street W1 (resi)	Q Apartments	13,400	**52.10**	0.7	10	-	3
The White Chapel Building E1	Emperor Design	12,700	49.50	0.6	10	5	12, plus 6 if no break
Total		152,700	62.90	9.6			

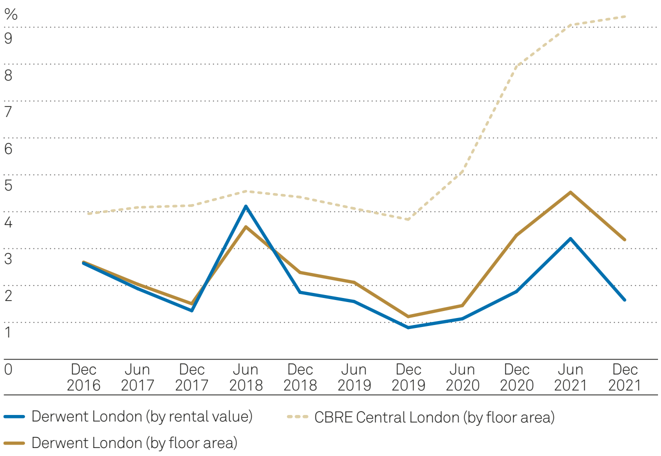
Retaining occupiers – Lease expiry and break analysis



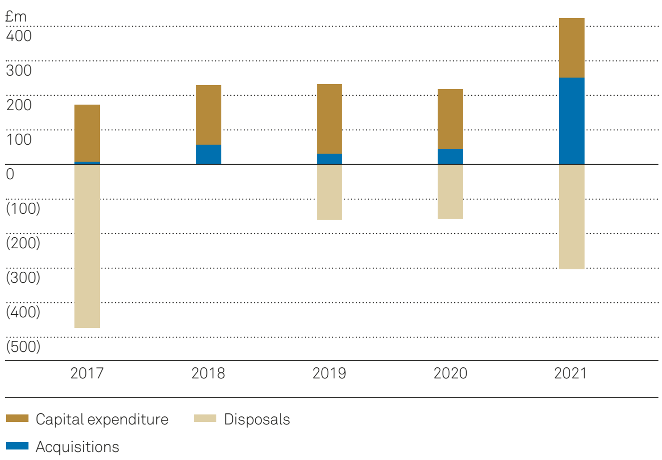
Average unexpired lease length



Five-year vacancy trend



Net property investment



Appendix 5

Development and refurbishment

Project summary – current projects

Property	Current net income £m pa	Pre scheme area '000 sq ft	Proposed area '000 sq ft	2022 capex £m	2023 capex £m	2024+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
Soho Place W1[1]	–	107	285	79	–	–	79	H1 2022	£92.50
The Featherstone Building EC1	–	69	125	10	–	–	10	H1 2022	£72.50
Francis House SW1	–	40	38	8	2	–	10	H1 2022	£76.00
19-35 Baker Street W1	–	143	298	50	103	113	266	H1 2025	£90.00
	–	**359**	**746**	**147**	**105**	**113**	**365**		
2022 projects									
Network Building W1	2.1	70	137	12	22	70	104	2025	
	2.1	**429**	**883**	**159**	**127**	**183**	**469**		
Strathkelvin Retail Park	–	–	–	10	1	–	11		
Planning and design	–	–	–	12	2	–	14		
Other[2]	–	–	–	16	16	14	46		
Total	**2.1**	**429**	**883**	**197**	**146**	**197**	**540**		
Capitalised interest	–	–	–	6	6	11	23		
Total including interest	**2.1**	**429**	**883**	**203**	**152**	**208**	**563**		

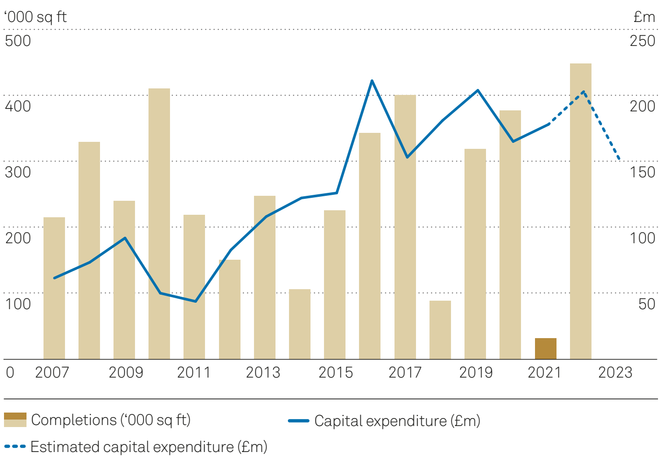
[1] Includes remaining site acquisition cost and profit share to Crossrail
[2] Includes EPC upgrades

Project summary – future projects

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
Holden House W1	3.9	90	150	2025	
	3.9	**90**	**150**		
Under appraisal[1]					
Bush House WC2	–	104	130	2021	Refurbishment and potential extension
Baker Street W1 JV	2.5	61	120	2024	Joint venture, 50% share
Blue Star House SW9	0.8	54	110	2025	Redevelopment
Other	4.0	171	171		Includes Oliver's Yard EC1 and 45 Whitfield Street W1
	7.3	**390**	**531**		
Consented and under appraisal	**11.2**	**480**	**681**		
On site and 2022 projects	2.1	429	883		Previous table
Pipeline	**13.3**	**909**	**1,564**		

[1] Areas proposed are estimated from initial studies

Completions and capital expenditure



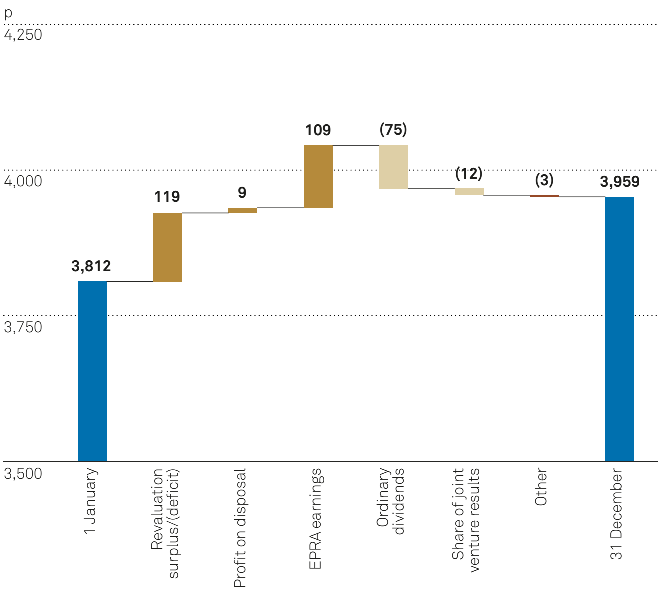
Appendix 6

Finance

Financial highlights

	2021	2020
Total net asset	£4,441.8m	£4,315.1m
EPRA NTA per share	3,959p	3,812p
Property portfolio at fair value	£5,646.3m	£5,355.5m
Gross property and other income	£240.2m	£268.6m
Net rental income	£178.2m	£174.3m
IFRS profit/(loss) before tax	£252.5m	(£83.0m)
EPRA earnings per share (EPS)	108.79p	99.19p
Interim and final dividend per share	76.50p	74.45p
LTV ratio	20.8%	18.4%
NAV gearing	28.2%	24.3%
Net interest cover ratio	464%	446%

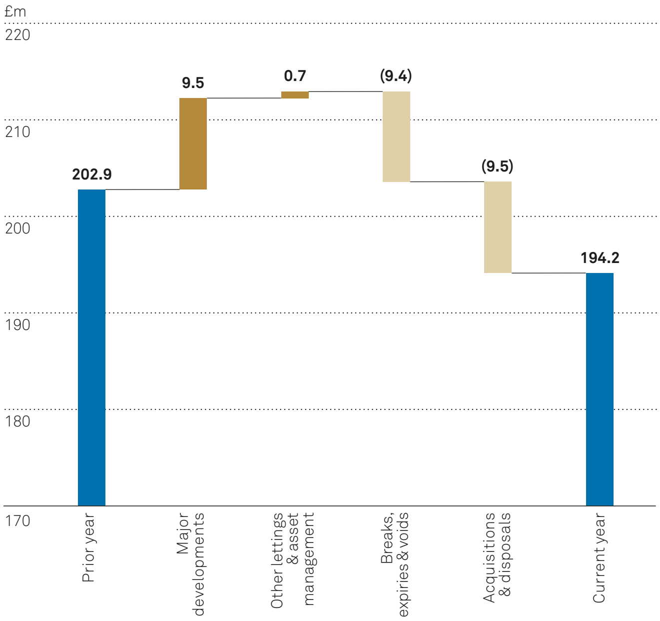
EPRA net tangible assets per share



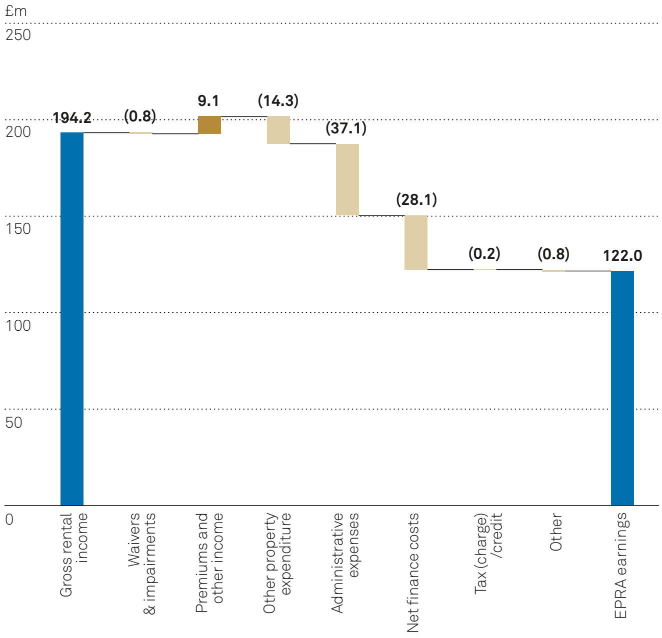
2020	3,957	(176)	5	99	(73)	–	–	3,812

Appendix 6
Finance

Gross rental income



EPRA earnings



2020	202.9	(14.2)	5.3	(14.4)	(37.8)	(30.1)	0.6	(1.3)	111.0

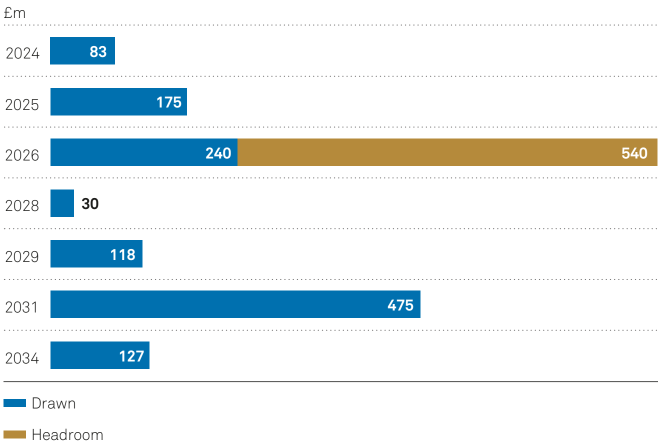
Cost ratios

	2021 %	2020 %
EPRA cost ratio, incl. direct vacancy costs	24.3	30.5
EPRA cost ratio, excl. direct vacancy costs	21.1	26.0
Portfolio cost ratio, incl. direct vacancy costs	0.8	1.1

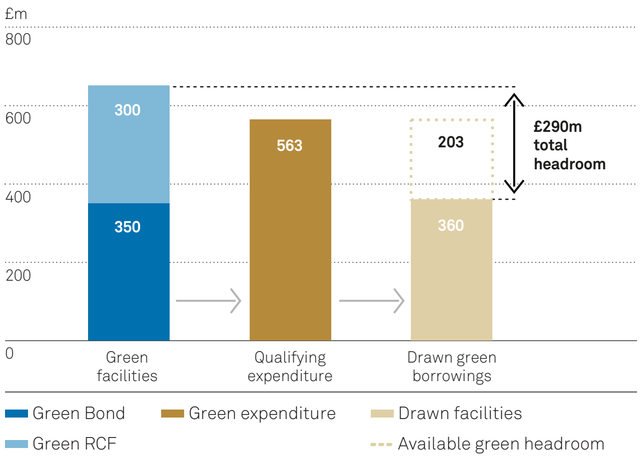
EPRA like-for-like rental income

	2021 %	2020 %
Decrease based on gross rental income	(3.9)	(0.9)
Increase/(decrease) based on net rental income	2.7	(9.8)
Increase/(decrease) based on net property income	5.9	(8.9)

Maturity profile of debt facilities as at 31 December 2021



Green borrowings and qualifying expenditure



Appendix 6
Finance

Debt facilities and reconciliation to borrowings and net debt at 31 December 2021

	Drawn £m	Undrawn £m	Total £m	Maturity
1.5% unsecured convertible bonds	175.0	–	175.0	June 2025
6.5% secured bonds	175.0	–	175.0	March 2026
1.875% unsecured green bonds	350.0	–	350.0	November 2031
2.68% Unsecured private placement notes	55.0	–	55.0	January 2026
3.46% unsecured private placement notes	30.0	–	30.0	May 2028
4.41% unsecured private placement notes	25.0	–	25.0	January 2029
2.87% Unsecured private placement notes	93.0	–	93.0	January 2029
2.97% Unsecured private placement notes	50.0	–	50.0	January 2031
3.57% unsecured private placement notes	75.0	–	75.0	May 2031
4.68% unsecured private placement notes	75.0	–	75.0	January 2034
3.09% Unsecured private placement notes	52.0	–	52.0	January 2034
3.99% secured loan	83.0	–	83.0	October 2024
Other loans	12.3	–	12.3	N/A
Non-bank debt	1,250.3	–	1,250.3	
Bilateral revolving credit - unsecured	–	100.0	100.0	November 2026
Club revolving credit - unsecured	10.0	440.0	450.0	October 2026
Committed bank facilities	10.0	540.0	550.0	
Debt facilities	1,260.3	540.0	1,800.3	
Acquired fair value of secured bonds less amortisation	8.0			
Unamortised discount on unsecured green bonds	(1.8)			
Equity adjustment to convertible bonds less amortisation	(4.5)			
Unamortised issue and arrangement costs	(12.6)			
Borrowings	1,249.4			
Leasehold liabilities	70.6			
Cash and cash equivalents	(68.5)			
Net debt	**1,251.5**			

Debt: key stats

	2021	2020
Hedging profile (%)		
Fixed	99	85
Swaps	0	0
	99	85
Percentage of debt that is unsecured (%)	79	73
Percentage of non-bank debt (%)	99	85
Weighted average interest rate – cash basis (%)	3.14	3.34
Weighted average interest rate – IFRS basis (%)	3.27	3.48
Weighted average maturity of facilities (years)	6.5	6.2
Weighted average maturity of borrowings (years)	7.2	6.8
Undrawn facilities and cash	608	476
Uncharged properties	4,769	4,329

Impact of joint ventures

	2021		2020	
	Group	Group and share of JVs	Group	Group and share of JVs
Fair value of portfolio (£m)	5,646.3	5,696.3	5,355.5	5,355.5
Net property and other income (£m)	187.5	187.9	183.0	183.0
LTV ratio (%)	21.0	20.8	18.4	18.4
Net interest cover ratio (%)	463	464	446	446